

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____.

Commission file number 000-53445

KB Financial Group Inc.

(Exact name of Registrant as specified in its charter)

KB Financial Group Inc.

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea

(Address of principal executive offices)

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

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

Title of each class

American Depositary Shares, each
representing one share of Common Stock
Common Stock, par value (Won)5,000 per share

Name of each exchange on which registered

New York Stock Exchange

New York Stock Exchange*

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

None

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

None

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

343,028,989 shares of Common Stock, par value (Won)5,000 per share

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

As of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this annual report as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 has been prepared in accordance with U.S. GAAP.

We were established on September 29, 2008 pursuant to a “comprehensive stock transfer” under Korean law, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us, a new financial holding company, and in return received shares of our common stock. See “Item 4A. History and Development of the Company—The Establishment of KB Financial Group.” The stock transfer was accounted for under U.S. GAAP as a transaction between entities under common control and, with respect to the transfer by noncontrolling stockholders of Kookmin Bank’s subsidiaries included in the stock transfer, the acquisition by us of such noncontrolling interests of such subsidiaries was accounted for using the purchase method. Accordingly, the consolidated financial statements included in this annual report are, as of dates and for periods prior to the date of the stock transfer, for Kookmin Bank and its subsidiaries, and as of dates and for periods from and after the date of the stock transfer, for us and our subsidiaries, including Kookmin Bank. For further information regarding the accounting treatment of the stock transfer, see Note 3 of the notes to our consolidated financial statements.

In this annual report:

- references to “we,” “us” or “KB Financial Group” are to KB Financial Group Inc. and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the establishment of KB Financial Group on September 29, 2008, Kookmin Bank and, unless the context otherwise requires, its subsidiaries as of such periods;
- references to “Korea” are to the Republic of Korea;
- references to the “government” are to the government of the Republic of Korea;
- references to “Won” or “W” are to the currency of Korea; and
- references to “U.S. dollars,” “\$” or “US\$” are to United States dollars.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2010, which was (Won)1,130.6 = US\$1.00.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;

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

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3A. Selected Financial Data

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our consolidated financial statements as of and for the years ended December 31, 2006, 2007 and 2008 have been audited by independent registered public accounting firm Deloitte Anjin LLC and our consolidated financial statements as of and for the years ended December 31, 2009 and 2010 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers.

We were established on September 29, 2008 pursuant to a “comprehensive stock transfer” under Korean law, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us, a new financial holding company, and in return received shares of our common stock. See “Item 4A. History and Development of the Company—The Establishment of KB Financial Group.” The stock transfer was accounted for under U.S. GAAP as a transaction between entities under common control. Accordingly, the consolidated financial statements included in this annual report are, as of dates and for periods prior to the date of the stock transfer, for Kookmin Bank and its subsidiaries, and as of dates and for periods from and after the date of the stock transfer, for us and our subsidiaries, including Kookmin Bank. For further information regarding the accounting treatment of the stock transfer, see Note 3 of the notes to our consolidated financial statements.

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

Consolidated income statement data

	Year Ended December 31,					
	2006	2007	2008	2009	2010	2010 ⁽¹⁾
	(in billions of Won, except common share data)					(in millions of US\$, except common share data)
Interest and dividend income	(Won) 11,405	(Won) 12,792	(Won) 15,829	(Won) 13,590	(Won) 13,036	US\$ 11,530
Interest expense	5,342	6,687	9,360	8,231	6,971	6,165
Net interest income	6,063	6,105	6,469	5,359	6,065	5,365
Provision for credit losses	(100)	18	2,313	2,204	3,568	3,156
Non-interest income	2,880	4,013	2,952	3,513	3,363	2,975
Non-interest expenses	4,522	5,135	5,321	5,742	6,149	5,439
Income tax expense (benefit)	1,423	1,206	454	207	304	269
Income (loss) before cumulative effect of a change in accounting principle, net of tax ⁽²⁾	3,098	3,759	1,333	719	(593)	(524)
Cumulative effect of a change in accounting principle	(2)	—	—	—	—	—
Net income (loss) ⁽²⁾	3,096	3,759	1,333	719	(593)	(524)
Net income (loss) attributable to noncontrolling interests, net of tax ⁽²⁾	5	4	7	(2)	(5)	(4)
Net income (loss) attributable to stockholders ⁽²⁾	(Won) 3,091	(Won) 3,755	(Won) 1,326	(Won) 721	(Won) (588)	US\$ (520)
Net income (loss) attributable to stockholders per common share						
Net income (loss)—basic	(Won) 8,969	(Won) 10,898	(Won) 4,012	(Won) 2,215	(Won) (1,714)	US\$ (1.52)
Net income (loss)—diluted ⁽³⁾	8,969	10,898	4,012	2,215	(1,714)	(1.52)
Weighted average common shares outstanding-basic (in thousands of common shares) ⁽⁴⁾	344,576	344,570	330,498	325,397	343,029	343,029
Weighted average common shares outstanding-diluted (in thousands of common shares) ⁽⁴⁾	344,578	344,570	330,498	325,397	343,029	343,029
Cash dividends declared per common share ⁽⁵⁾	(Won) 550	(Won) 3,650	(Won) 2,450	(Won) —	(Won) 230	US\$ 0.20

⁽¹⁾ Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.6 to US\$1.00, the noon buying rate in effect on December 31, 2010 as quoted by the Federal Reserve Bank of New York in the United States.

On January 1, 2009, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements” (ASC 810-10-45-15, “Consolidation—Noncontrolling Interest in a Subsidiary”) (“ASC 810-10-45-15”). As a result, minority interests have been recharacterized as noncontrolling interests and net income (loss) attributable to noncontrolling interests, net of tax, is included in income (loss) before cumulative effect of a change in accounting principle, net of tax, and subtracted from net income (loss) to calculate net income (loss) attributable to stockholders. Corresponding items for all prior periods have been restated accordingly.

- ⁽³⁾ Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors, executive officers and employees. Effective from August 2005, we changed the settlement method for such stock options to a cash settlement method (excluding certain outstanding stock options which were exercised in full in 2006), and accordingly there were no potentially dilutive common shares in 2007, 2008, 2009 and 2010.

- (4) In September 2009, we issued 30,000,000 new shares of our common stock (including 2,775,585 new shares in the form of ADSs) at a subscription price of (Won)37,250 per share (and US\$29.95 per ADS), pursuant to a rights offering to our existing shareholders. The subscription price was less than the fair value per share of our common stock at such time. Under U.S. GAAP, such difference is treated similarly to a stock dividend, and the weighted average common shares outstanding for all periods have been adjusted accordingly. See Note 26 of the notes to our consolidated financial statements.
- (5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

Consolidated balance sheet data

	As of December 31,					
	2006	2007	2008 (in billions of Won)	2009	2010	2010 ⁽¹⁾ (in millions of US\$)
Assets						
Cash and cash equivalents	(Won) 3,775	(Won) 2,770	(Won) 3,073	(Won) 2,696	(Won) 3,867	US\$ 3,421
Restricted cash	3,277	3,996	4,794	6,050	3,360	2,971
Interest-bearing deposits in other banks	423	69	235	467	987	873
Call loans and securities purchased under resale agreements	1,738	1,628	1,407	2,036	2,850	2,520
Trading assets	3,744	6,594	13,095	7,721	6,085	5,382
Investments ⁽²⁾	25,348	24,685	29,209	33,245	33,911	29,994
Loans (net of allowance for loan losses of (Won)2,468 billion in 2006, (Won)1,864 billion in 2007, (Won)3,043 billion in 2008, (Won)3,341 billion in 2009 and (Won)4,247 billion (US\$3,757 million) in 2010)	149,216	170,721	197,067	193,454	192,947	170,659
Due from customers on acceptances	620	1,106	2,063	1,895	1,878	1,661
Premises and equipment, net	1,612	1,660	1,775	1,617	1,478	1,308
Accrued interest and dividends receivable	802	899	1,124	1,029	957	846
Security deposits	1,190	1,335	1,428	1,406	1,402	1,240
Goodwill	394	394	578	580	586	518
Other intangible assets, net	185	183	208	191	275	244
Other assets	654	1,643	2,271	1,468	1,169	1,034
Total assets	<u>(Won)192,978</u>	<u>(Won)217,683</u>	<u>(Won)258,327</u>	<u>(Won)253,855</u>	<u>(Won)251,752</u>	<u>US\$ 222,671</u>
Liabilities and Equity						
Deposits:						
Interest bearing	(Won)125,195	(Won)134,760	(Won)155,263	(Won)166,079	(Won)176,846	US\$ 156,418
Non-interest bearing	4,345	3,678	3,438	3,104	3,082	2,726
Call money	168	794	3,444	1,365	605	535
Trading liabilities	1,223	1,812	8,191	4,246	3,270	2,892
Acceptances outstanding	620	1,106	2,063	1,895	1,878	1,661
Other borrowed funds	10,627	7,776	10,527	8,176	8,775	7,762
Accrued interest payable	3,698	4,196	4,961	3,819	3,703	3,276
Secured borrowings	7,463	6,315	5,880	4,670	2,651	2,345
Long-term debt	21,675	36,307	45,148	39,570	30,080	26,605
Other liabilities	3,174	3,953	3,817	3,355	3,826	3,383
Total liabilities	<u>178,188</u>	<u>200,697</u>	<u>242,732</u>	<u>236,279</u>	<u>234,716</u>	<u>207,603</u>
Common stock	1,682	1,682	1,782	1,932	1,932	1,709
Additional paid-in capital	5,404	5,405	6,253	7,200	7,210	6,377
Other	7,686	9,879	7,560	8,407	7,855	6,947
Stockholders' equity	<u>14,772</u>	<u>16,966</u>	<u>15,595</u>	<u>17,539</u>	<u>16,997</u>	<u>15,033</u>
Noncontrolling interests ⁽³⁾	18	20	0	37	39	35
Total equity	<u>14,790</u>	<u>16,986</u>	<u>15,595</u>	<u>17,576</u>	<u>17,036</u>	<u>15,068</u>
Total liabilities and equity	<u>(Won)192,978</u>	<u>(Won)217,683</u>	<u>(Won)258,327</u>	<u>(Won)253,855</u>	<u>(Won)251,752</u>	<u>US\$ 222,671</u>

- (1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.6 to US\$1.00, the noon buying rate in effect on December 31, 2010 as quoted by the Federal Reserve Bank of New York in the United States.
- (2) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.
- (3) On January 1, 2009, we adopted ASC 810-10-45-15. As a result, minority interests have been recharacterized as noncontrolling interests and reclassified as a component of equity. Corresponding items for all prior periods have been restated accordingly.

Profitability ratios and other data

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(Percentages)				
Net income (loss) attributable to stockholders as a percentage of:					
Average total assets ⁽¹⁾	1.61%	1.80%	0.54%	0.27%	(0.23)%
Average stockholders' equity ⁽¹⁾	22.52	22.66	7.79	4.45	(3.22)
Dividend payout ratio ⁽²⁾	39.73	21.95	—	10.94	(7.04)
Net interest spread ⁽³⁾	3.15	2.84	2.48	1.97	2.25
Net interest margin ⁽⁴⁾	3.43	3.17	2.83	2.21	2.50
Efficiency ratio ⁽⁵⁾	50.56	50.75	56.48	64.72	65.22
Cost-to-average assets ratio ⁽⁶⁾	2.36	2.46	2.18	2.19	2.37
Won loans (gross) as a percentage of Won deposits	112.16	119.48	120.50	111.55	105.94
Total loans (gross) as a percentage of total deposits	116.88	124.38	125.79	115.98	109.21

- (1) Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our other operations.
- (2) Represents the ratio of total dividends declared on common stock as a percentage of net income attributable to stockholders.
- (3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
- (4) Represents the ratio of net interest income to average interest earning assets.
- (5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
- (6) Represents the ratio of non-interest expense to average total assets.

Capital ratios under Korean GAAP

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(Percentages)				
Consolidated capital adequacy ratio of KB Financial Group ⁽¹⁾	—	—	11.73%	13.34%	13.08%
Capital adequacy ratios of Kookmin Bank					
Tier I capital adequacy ratio ⁽²⁾	10.07%	9.74%	9.92%	10.82%	10.89%
Tier II capital adequacy ratio ⁽²⁾	4.10	2.88	3.26	3.22	2.55
Average stockholders' equity as a percentage of average total assets	7.37	7.63	6.06	6.09	7.06

- (1) Under applicable guidelines of the Financial Services Commission, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8%. This computation is based on our consolidated financial statements prepared in accordance with Korean GAAP (or, commencing in 2011, the Korean equivalent of International Financial Reporting Standards). See "Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy."
- (2) Kookmin Bank's capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Services Commission. The computation is based on its consolidated financial statements prepared in accordance with Korean GAAP (or, commencing in 2011, the Korean equivalent of International Financial Reporting Standards). See "Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy."

Credit portfolio ratios and other data

	As of December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won, except percentages)				
Total loans	(Won)151,403	(Won)172,189	(Won)199,637	(Won)196,225	(Won)196,496
Total non-performing loans ⁽¹⁾	2,143	1,339	1,068	1,365	1,316
Other impaired loans not included in non-performing loans	1,195	887	2,636	2,022	2,953
Total of non-performing loans and other impaired loans	3,338	2,226	3,704	3,387	4,269
Total allowance for loan losses	2,468	1,864	3,043	3,341	4,247
Non-performing loans as a percentage of total loans	1.42%	0.78%	0.53%	0.70%	0.67%
Non-performing loans as a percentage of total assets	1.11	0.62	0.41	0.54	0.52
Total of non-performing loans and other impaired loans as a percentage of total loans	2.21	1.29	1.86	1.73	2.17
Allowance for loan losses as a percentage of total loans	1.63	1.08	1.52	1.70	2.16

⁽¹⁾ Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due more than 90 days.

Selected Statistical Information

Average Balance Sheets and Related Interest

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

	Year Ended December 31,									
	2008			2009			2010			
	Average Balance (1)	Interest Income (2)(3)(4)(5)	Average Yield	Average Balance (1)	Interest Income (2)(3)(4)	Average Yield	Average Balance (1)	Interest Income (2)(3)(4)	Average Yield	
	(in billions of Won, except percentages)									
Assets										
Cash and interest-earning deposits in other banks	(Won) 441	(Won) 14	3.17%	(Won) 722	(Won) 24	3.32%	(Won) 1,121	(Won) 33	2.94%	
Call loans and securities purchased under resale agreements	2,007	88	4.38	2,836	46	1.62	4,185	86	2.05	
Trading securities	5,184	282	5.44	4,505	191	4.24	5,724	234	4.09	
Investment securities (6)	28,458	1,488	5.23	32,586	1,489	4.57	33,664	1,471	4.37	
Loans:										
Commercial and industrial	70,442	4,808	6.83	78,206	4,489	5.74	75,836	4,249	5.60	
Construction loans	9,491	681	7.18	9,067	562	6.20	7,302	463	6.34	
Other commercial	2,415	156	6.46	2,564	139	5.42	2,265	83	3.66	
Mortgage and home equity	68,154	4,659	6.84	70,643	3,320	4.70	70,400	3,261	4.63	
Other consumer	25,716	2,166	8.42	27,273	1,867	6.85	27,369	1,829	6.68	
Credit cards (4)	10,640	1,274	11.97	11,355	1,379	12.14	11,906	1,250	10.50	
Foreign	2,154	121	5.62	2,399	84	3.50	2,415	77	3.19	
Loans (total)	189,012	13,865	7.34	201,507	11,840	5.88	197,493	11,212	5.68	
Total average interest earning assets	225,102	15,737	6.99	242,156	13,590	5.61	242,187	13,036	5.38	
Cash and due from banks	6,481	—	—	7,352	—	—	7,229	—	—	
Foreign exchange spot contracts and derivatives	5,569	—	—	6,671	—	—	5,450	—	—	
Premises and equipment	1,094	—	—	1,688	—	—	1,538	—	—	
Due from customers on acceptances	2,215	—	—	2,050	—	—	2,096	—	—	
Loan loss allowance	(1,863)	—	—	(2,923)	—	—	(3,536)	—	—	
Other non-interest earning assets	5,689	—	—	5,585	—	—	4,392	—	—	
Total average non-interest earning assets	19,185	—	—	20,423	—	—	17,169	—	—	
Total average assets	(Won)244,287	(Won) 15,737	6.44%	(Won)262,579	(Won) 13,590	5.18%	(Won)259,356	(Won) 13,036	5.03%	

Year Ended December 31,

	2008			2009			2010		
	Average Balance ⁽¹⁾	Interest Expense	Average Cost	Average Balance ⁽¹⁾	Interest Expense	Average Cost	Average Balance ⁽¹⁾	Interest Expense	Average Cost
(in billions of Won, except percentages)									
Liabilities									
Deposits:									
Demand deposits	(Won) 622	(Won) 14	2.25%	(Won) 846	(Won) 10	1.18%	(Won) 789	(Won) 10	1.27%
Certificates of deposit	25,392	1,533	6.04	26,423	1,189	4.50	10,960	442	4.03
Other time deposits	77,495	4,152	5.36	87,721	3,905	4.45	109,032	3,942	3.62
Savings deposits	41,761	444	1.06	46,277	229	0.49	48,207	202	0.42
Mutual installment deposits	4,985	171	3.43	3,915	117	2.99	3,702	113	3.05
Deposits (total)	150,255	6,314	4.20	165,182	5,450	3.30	172,690	4,709	2.73
Call money	3,059	121	3.96	3,528	67	1.90	1,810	25	1.38
Borrowings from the Bank of Korea									
Other short-term borrowings	8,634	400	4.63	8,805	267	3.03	7,271	203	2.79
Secured borrowings	6,411	342	5.33	5,293	240	4.53	3,362	176	5.23
Long-term debt	38,406	2,166	5.64	42,333	2,192	5.18	36,342	1,846	5.08
Total average interest bearing liabilities	207,335	9,360	4.51	226,341	8,231	3.64	222,457	6,971	3.13
Demand deposits	3,076	—	—	2,936	—	—	2,805	—	—
Foreign exchange spot contracts and derivatives	6,510	—	—	7,298	—	—	6,728	—	—
Acceptances to customers	2,285	—	—	2,049	—	—	2,061	—	—
Other non-interest bearing liabilities	8,056	—	—	7,746	—	—	7,151	—	—
Total average non-interest bearing liabilities	19,927	—	—	20,029	—	—	18,745	—	—
Total average liabilities	227,262	9,360	4.12	246,370	8,231	3.34	241,202	6,971	2.89
Total equity ⁽⁷⁾	17,025	—	—	16,209	—	—	18,154	—	—
Total average liabilities and equity	(Won)244,287	(Won)9,360	3.83%	(Won)262,579	(Won)8,231	3.13%	(Won)259,356	(Won)6,971	2.69%

(1) Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our other operations.

(2) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See "Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Non-Accrual Loans and Past Due Accruing Loans."

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

(4) Interest income from credit cards includes principally cash advance fees of (Won)560 billion, (Won)543 billion and (Won)453 billion and interest on credit card loans of (Won)458 billion, (Won)523 billion and (Won)474 billion, for the years ended December 31, 2008, 2009 and 2010, respectively, but does not include interchange fees.

(5) Excludes an interest payment of (Won)92 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest income was excluded as it was a one-time event in response to the global financial crisis in 2008 and the Bank of Korea generally does not pay interest on its required reserves.

(6) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of total equity.

(7) On January 1, 2009, we adopted ASC 810-10-45-15. As a result, minority interests have been recharacterized as noncontrolling interests and reclassified as a component of equity. Corresponding items for 2008 have been restated accordingly.

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

	Year Ended December 31,		
	2008	2009 (percentages)	2010
Net interest spread ⁽¹⁾	2.48%	1.97%	2.25%
Net interest margin ⁽²⁾	2.83	2.21	2.50
Average asset liability ratio ⁽³⁾	108.57	106.99	108.87

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

⁽²⁾ The ratio of net interest income to average interest earning assets.

⁽³⁾ The ratio of average interest earning assets to average interest bearing liabilities.

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

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2009 compared to 2008 and 2010 compared to 2009. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2009 vs. 2008 Increase/(Decrease) Due to Change in			2010 vs. 2009 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total ⁽¹⁾	Volume	Rate	Total
	(in billions of Won)					
Interest earning assets						
Cash and interest earning deposits in other banks	(Won) 9	(Won) 1	(Won) 10	(Won) 12	(Won) (3)	(Won) 9
Call loans and securities purchased under resale agreements	27	(69)	(42)	26	14	40
Trading securities	(34)	(57)	(91)	50	(7)	43
Investment securities	201	(200)	1	48	(66)	(18)
Loans:						
Commercial and industrial	495	(814)	(319)	(134)	(106)	(240)
Construction loans	(29)	(90)	(119)	(112)	13	(99)
Other commercial	9	(26)	(17)	(15)	(41)	(56)
Mortgage and home equity	165	(1,504)	(1,339)	(11)	(48)	(59)
Other consumer	125	(424)	(299)	7	(45)	(38)
Credit cards	87	18	105	65	(194)	(129)
Foreign	13	(50)	(37)	1	(8)	(7)
Total interest income	<u>1,068</u>	<u>(3,215)</u>	<u>(2,147)</u>	<u>(63)</u>	<u>(491)</u>	<u>(554)</u>

⁽¹⁾ Excludes an interest payment of (Won)92 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest income was excluded as it was a one-time event in response to the global financial crisis in 2008 and the Bank of Korea generally does not pay interest on its required reserves.

	2009 vs. 2008 Increase/(Decrease) Due to Change in			2010 vs. 2009 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest bearing liabilities						
Deposits:						
Demand deposits	4	(8)	(4)	(1)	1	0
Certificates of deposit	60	(404)	(344)	(634)	(113)	(747)
Other time deposits	507	(754)	(247)	848	(811)	37
Savings deposits	44	(259)	(215)	9	(36)	(27)
Mutual installment deposits	(34)	(20)	(54)	(6)	2	(4)
Call money	16	(70)	(54)	(27)	(15)	(42)
Borrowings from the Bank of Korea	12	(14)	(2)	(3)	0	(3)
Other short-term borrowings	8	(141)	(133)	(44)	(20)	(64)
Secured borrowings	(55)	(47)	(102)	(97)	33	(64)
Long-term debt	211	(185)	26	(305)	(41)	(346)
Total interest expense	773	(1,902)	(1,129)	(260)	(1,000)	(1,260)
Total net interest income	<u>(Won)295</u>	<u>(Won)(1,313)</u>	<u>(Won)(1,018)</u>	<u>(Won) 197</u>	<u>(Won) 509</u>	<u>(Won) 706</u>

Exchange Rates

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The “noon buying rate” is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2010, which was (Won)1,130.6 to US\$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 10, 2011, the noon buying rate was (Won)1,084.0 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average ⁽¹⁾	Period-End
2005	(Won) 997.0	(Won)1,059.8	(Won)1,023.8	(Won)1,010.0
2006	913.7	1,002.9	954.3	930.0
2007	903.2	950.2	929.0	935.8
2008	935.2	1,507.9	1,098.7	1,262.0
2009	1,149.0	1,570.1	1,274.6	1,163.7
2010	1,104.0	1,253.2	1,155.7	1,130.6
December	1,130.0	1,155.2	1,145.5	1,130.6
2011 (through June 10)	1,065.5	1,135.6	1,102.8	1,084.0
January	1,111.0	1,128.1	1,118.9	1,119.1
February	1,100.9	1,130.6	1,117.4	1,123.7
March	1,097.3	1,135.6	1,119.3	1,097.3
April	1,068.4	1,091.8	1,083.2	1,068.4
May	1,065.5	1,101.6	1,084.4	1,078.0
June (through June 10)	1,076.2	1,084.0	1,080.2	1,084.0

Source: Federal Reserve Bank of New York.

⁽¹⁾ The average of the daily noon buying rates of the Federal Reserve Bank in effect during the relevant period (or portion thereof).

Item 3B. Capitalization and Indebtedness

Not Applicable

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

Not Applicable

Item 3D. Risk Factors

Risks relating to our retail credit portfolio

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

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of retail loans, including mortgage and home equity loans, has grown from (Won)88,839 billion as of December 31, 2007 to (Won)98,233 billion as of December 31, 2010. As of December 31, 2010, our retail loans represented 50.0% of our total lending. Within our retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans are often unsecured and therefore tend to carry a higher credit risk, has increased from (Won)23,020 billion as of December 31, 2007 to (Won)27,790 billion as of December 31, 2010; as a percentage of total outstanding retail loans, such balance has also increased from 25.9% as of December 31, 2007 to 28.3% as of December 31, 2010. The growth of our retail lending business, which generally offers higher margins than other lending activities, contributed significantly to our interest income and profitability in recent years.

The growth of our retail loan portfolio, together with adverse economic conditions in Korea and globally in recent years, may lead to increases in delinquency levels and a deterioration in asset quality. While our non-performing retail loans (defined as those that are over 90 days past due) decreased slightly from (Won)398 billion as of December 31, 2007 to (Won)389 billion as of December 31, 2010 due to the relative stabilization of delinquency levels during such period, our non-performing retail loans may increase in 2011. Higher delinquencies in our retail loan portfolio will require us to increase our loan loss provisions and charge-offs, which in turn will adversely affect our financial condition and results of operations.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, a rise in unemployment, an increase in interest rates, deterioration of the real estate market or difficulties in the Korean economy may have an adverse effect on Korean consumers, which could result in reduced growth and further deterioration in the credit quality of our retail loan portfolio. See “Risks relating to Korea—Unfavorable financial and economic developments in Korea may have an adverse effect on us.” In order to minimize our risk as a result of such exposure, we are continuing to strengthen our risk management processes, including further improving the retail lending process, upgrading our retail credit rating system, as well as strengthening the overall management of our portfolio. Despite our efforts, however, there is no assurance that we will be able to prevent significant credit quality deterioration in our retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including us, to establish a “pre-workout program,” including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following extensions by the Korean government, is expected to continue until April 2013. Under the pre-workout program, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than (Won)500 million who are in arrears on their payments for more than 30 days but less than 90 days. Our participation in such pre-workout program and other government-led initiatives to provide financial support to retail borrowers may lead us to extend credit to such borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

With respect to our credit card portfolio, our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) decreased from 3.60% as of December 31, 2007 to 2.15% as of December 31, 2010. In line with industry practice, we have restructured a portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans. As of December 31, 2010, these restructured loans outstanding amounted to (Won)25 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans, outstanding balances overdue by one day or more accounted for 2.30% of our credit card receivables (including credit card loans) as of December 31, 2010. Delinquencies may increase in 2011 and in the future as a result of, among other things, adverse economic conditions in Korea and the inability of Korean consumers to manage increased household debt.

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

In addition, as a part of our strategy to promote the growth of our credit card operations and enhance its synergies with our other businesses, in March 2011, we effected a horizontal spin-off of the credit card business from Kookmin Bank. As a result, our credit card business is operated by a newly established wholly-owned subsidiary, KB Kookmin Card Co., Ltd. However, we may not be able to realize the anticipated benefits of this spin-off due to various factors, including increased expenses arising from the operation of a separate credit card company, unexpected business disruptions, difficulties in reorganizing personnel and administrative functions and potential loss of customers.

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

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

One of our core businesses is lending to small- and medium-sized enterprises (as defined under “Item 4B. Business Overview—Corporate Banking—Small- and Medium-sized Enterprise Banking”). We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)54,116 billion as of December 31, 2007 to (Won)66,308 billion as of December 31, 2010. During that period, we estimate that non-performing loans to small- and medium-sized enterprises decreased from (Won)882 billion to (Won)762 billion and the non-performing loan ratio for such loans decreased from 1.6% as of December 31, 2007 to 1.1% as of December 31, 2010 but may increase in 2011. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean commercial banks to small- and medium-sized enterprises was 1.3% as of December 31, 2010. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won currency loans on a Korean GAAP basis increased from 0.6% as of December 31, 2007 to 1.1% as of December 31, 2010 and may further increase in 2011. In recent years, we have taken measures which sought to stem rising delinquencies in our loans to small- and medium-sized enterprises, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of small- and medium-sized enterprise borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as construction, hotels, restaurants and real estate. Despite such efforts, however, there is no assurance that

delinquency levels for our loans to small- and medium-sized enterprises will not rise in the future. In particular, financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea and globally in recent years, may lead to a deterioration in the asset quality of our loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which could have a material adverse impact on our financial condition and results of operations.

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

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

In light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea since the global financial crisis commencing in the second half of 2008, the Korean government introduced policies and initiatives intended to encourage Korean banks to provide financial support to small- and medium-sized enterprises. For example, in November 2008, we entered into a memorandum of understanding with the Financial Supervisory Service under which we were required to improve the liquidity position of small- and medium-sized enterprises and exporters by providing them with adequate financing and to endeavor to alleviate burdens on low-income debtors by extending maturity dates or by delaying interest payments on loans owed to us. In addition, in October 2008, the Financial Supervisory Service requested Korean banks, including us, to establish a “fast track” program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective through December 31, 2011, we provide liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us. The overall prospects for the Korean economy in 2011 and beyond remain uncertain, and the Korean government may extend existing policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. Our participation in such government-led initiatives may lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprise borrowers resulting from such government-led initiatives may have a material adverse effect on our financial condition and results of operations.

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

As of December 31, 2010, we had loans outstanding to construction companies and shipbuilding companies (many of which are small- and medium-sized enterprises) in the amount of (Won)6,422 billion and (Won)1,178 billion, or 3.3% and 0.6% of our total loans, respectively. We also have other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended for the benefit of such companies and debt

and equity securities of such companies held by us. In the case of construction companies, such exposures include guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy commencing in the second half of 2008. In October 2008, the Korean government implemented a (Won)9 trillion support package for the benefit of the Korean construction industry, including a program to buy unsold housing units and land from construction companies. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In response to the deteriorating financial condition and liquidity position of borrowers in the construction and shipbuilding industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Korean government implemented a program in 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including us) and the Korean government. In addition, in June 2010, the Financial Services Commission and the Financial Supervisory Service announced that, following credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea with outstanding debt of (Won)50 billion or more, 65 companies had been selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction companies and three were shipbuilding companies. However, there is no assurance that these measures will be successful in stabilizing the Korean construction and shipbuilding industries.

Principally as a result of the deterioration in the asset quality of our credit exposures to construction companies (including in the form of real estate project financing loans) and shipbuilding companies and the commencement of workout procedures with respect to a number of these companies in 2010, our provision for credit losses increased from (Won)2,204 billion in 2009 to (Won)3,568 billion in 2010. The allowances that we have established against our credit exposures to Korean construction and shipbuilding companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of our exposures to Korean construction and shipbuilding companies declines further, we may be required to take substantial additional provisions (including in connection with restructurings of such companies), which could adversely impact our results of operations and financial condition. Furthermore, although a portion of our credit exposures to construction and shipbuilding companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such credit exposures. See “— Other risks relating to our business—A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.”

We also have construction-related credit exposures under our project financing loans for real estate development projects in Korea. In light of the general deterioration in the asset quality of real estate project financing loans in Korea in recent years, Korean banks, including Kookmin Bank, implemented a uniform set of guidelines regarding the evaluation of real estate development projects and asset quality classification of project financing loans for such projects in September 2010. Under these guidelines, which became effective from the third quarter of 2010, Korean banks are generally required to apply more stringent criteria in evaluating the asset quality of real estate project financing loans. As a result, we may be required to establish additional allowances with respect to our outstanding real estate project financing loans, which could adversely affect our financial condition and results of operations.

Risks relating to our financial holding company structure and strategy

We have a limited operating history as a financial holding company, and we may not succeed in implementing our strategy to take advantage of, or fail to realize the anticipated benefits of, our financial holding company structure.

We were established as a new financial holding company in September 2008 pursuant to a “comprehensive stock transfer” under Korean law, following the completion of which Kookmin Bank, KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd., and KB Data Systems Co., Ltd. became our wholly-owned subsidiaries. See “Item 4A. History and Development of the Company—The Establishment of KB Financial Group.” In addition, as a part of our strategy to promote the growth of our credit card operations and enhance its synergies with our other businesses, we effected a horizontal spin-off of Kookmin Bank’s credit card business in March 2011. As a result, our credit card business is operated by a newly established wholly-owned subsidiary, KB Kookmin Card Co., Ltd.

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

Furthermore, our success under a financial holding company structure depends on our ability to realize the anticipated synergies, growth opportunities and cost savings from coordinating the businesses of our various subsidiaries. Although we are integrating certain aspects of our subsidiaries’ operations into our financial holding company structure, our subsidiaries will generally continue to operate as independent entities with separate management and staff. As a result, our ability to direct our subsidiaries’ day-to-day operations may be limited. In addition, one of the intended benefits of our financial holding company structure is that it enhances our ability to engage in mergers and acquisitions which we decide to pursue in the future as part of our strategy. For example, we may consider acquiring or merging with a financial institution in Korea, including one of the government-controlled financial institutions that becomes privatized in the future, or overseas. The integration of our subsidiaries’ separate businesses and operations, as well as those of any companies we may acquire or merge with in the future, under our financial holding company structure could require a significant amount of time, financial resources and management attention. Moreover, that process could disrupt our operations (including our risk management operations) or information technology systems, reduce employee morale, produce unintended inconsistencies in our standards, controls, procedures or policies, and affect our relationships with customers and our ability to retain key personnel. The realization of the anticipated benefits of our financial holding company structure and any mergers or acquisitions we decide to pursue may be blocked, delayed or reduced as a result of many factors, some of which may be outside our control. These factors include:

- difficulties in integrating the diverse activities and operations of our subsidiaries or any companies we may merge with or acquire, including risk management operations and information technology systems, personnel, policies and procedures;
- difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;
- restrictions under the Financial Holding Company Act and other regulations on transactions between a financial holding company and, or among, its subsidiaries;
- unforeseen contingent risks, including lack of required capital resources, increased tax liabilities or restrictions in our overseas operations, relating to our financial holding company structure;

- unexpected business disruptions;
- failure to attract, develop and retain personnel with necessary expertise;
- loss of customers; and
- labor unrest.

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

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

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

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

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

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

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

- under the Korean Commercial Code, dividends may only be paid out of distributable income, an amount which is calculated by subtracting the aggregate amount of a company’s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal period;
- under the Bank Act, a bank also must credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until that reserve equals the amount of its total paid-in capital; and
- under the Bank Act and the requirements of the Financial Services Commission, if a bank fails to meet its required capital adequacy ratio or otherwise becomes subject to management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividends by that bank.

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

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

We have historically relied on interest income as our primary revenue source. While we have developed new sources of fee income as part of our business strategy, our ability to increase our fee income and thereby reduce our dependence on interest income will be affected by the extent to which our customers generally accept the concept of fee-based services. Historically, customers in Korea have generally been reluctant to pay fees in return for value-added financial services, and their continued reluctance to do so will adversely affect the implementation of this aspect of our strategy.

In March 2007, we reduced or waived many of the fees we charge on our banking services, in response to customer demand. Specifically, we reduced or waived our fees on fund transfers through our Internet, mobile and telephone banking services, as well as on transfers and after-hour withdrawals through ATMs. We also reduced our wire transfer fees and eliminated the fees we charge on issuance of bankers' checks and certain tax-related statements. These measures may continue to limit the growth in our banking-related fee income.

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

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

Risks relating to competition

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

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

In addition, we believe that regulatory reforms, including the Financial Investment Services and Capital Markets Act which became effective in February 2009, and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign

financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, Standard Chartered Bank's acquisition of Korea First Bank in 2005, Chohung Bank's merger with Shinhan Bank in April 2006 and Hana Financial Group's agreement in November 2010 to acquire a controlling interest in Korea Exchange Bank from the Lone Star funds. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank and to dispose of or reduce its controlling interest in Woori Finance Holdings Co., Ltd. (the financial holding company of Woori Bank). Other financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

Risks relating to our large corporate loan portfolio

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

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2010, five were to companies that were members of the 37 largest *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures. As of that date, the total amount of our exposures to such 37 *chaebols* was (Won)18,279 billion, or 7.4% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition. See "Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Exposure to Chaebols."

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

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

As of December 31, 2010, our loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to (Won)1,793 billion or 0.9% of our total loans and guarantees, of which (Won)1,156 billion or 64.5% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for losses on these loans and guarantees amounted to (Won)905 billion, or 50.5% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Our exposures as of December 31, 2010 with respect to such securities of companies in workout, restructuring or rehabilitation amounted to (Won)125 billion, or less than 0.1% of our total exposures, but may increase in the future. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

We have exposure to member companies of the Kumho Asiana Group, and financial difficulties of these companies may adversely impact us.

Several member companies of the Kumho Asiana Group, one of Korea's largest chaebols, have been experiencing financial difficulties, including as a result of their heavily leveraged acquisition of Daewoo Engineering & Construction Co., Ltd. in 2006 and the subsequent global financial crisis commencing in the second half of 2008. In January 2010, Kumho Tires Co., Inc. and Kumho Industrial Co., Ltd. agreed with their creditors, including us, to begin an out-of-court debt restructuring program under the Corporate Restructuring Promotion Act. In addition, Kumho Petrochemical Co., Ltd. and Asiana Airlines announced that they would undergo a voluntary restructuring, in return for which their creditors, including us, agreed to a suspension of payments on the two companies' debt until the end of 2010. These four companies are member companies of the Kumho Asiana Group. As of December 31, 2010, our aggregate loans and guarantees to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines amounted to (Won) 468 billion, of which (Won)139 billion were classified as substandard or below. As of December 31, 2010, our allowances for credit losses with respect to such loans and guarantees amounted to (Won)113 billion. Moreover, in the first four months of 2011, we extended additional loans to Kumho Tires in the aggregate amount of approximately US\$3 million to provide additional liquidity in connection with its restructuring program. In 2010, we also converted an aggregate of (Won)38 billion of our loans to Kumho Tires and (Won)9 billion of our loans to Kumho Industrial into equity interests in connection with their restructuring programs. Our allowances may not be sufficient to cover all future losses arising from our exposures to these companies. Furthermore, in the event that the financial condition of these companies deteriorates further in the future, we may be required to record additional provisions for credit losses, as well as charge-offs and valuation or impairment losses or losses on disposal, which may have a material adverse effect on our financial condition and results of operations.

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

As of December 31, 2010, our loans and guarantees to our 20 largest borrowers totaled (Won)4,368 billion and accounted for 2.1% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to Samsung Heavy Industries, to which we had outstanding credit exposures (most of which was in the form of guarantees and acceptances) of (Won)1,329 billion, representing 0.6% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

Other risks relating to our business

Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.

During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 325 basis points in

order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2011 and beyond remain uncertain. For example, many governments worldwide, in particular in Portugal, Spain, Greece and other countries in southern Europe, have shown signs of fiscal stress and may experience difficulties in meeting their debt service requirements. In addition, recent political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Bahrain and Syria, have resulted in volatility and uncertainty in the global financial and energy markets. Moreover, the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and the resulting releases of radiation from damaged nuclear power plants in the area have added to the uncertainty in global economic prospects. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are considering or are in the process of implementing “exit strategies,” in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely. While such fluctuations have generally stabilized in the second half of 2010 and into 2011, there is no guarantee that they will not occur again in the future. See “Item 3A. Selected Financial Data—Exchange Rates.” A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method, including our noncontrolling equity stake in JSC Bank CenterCredit, a Kazakhstan bank, the initial stake in which we acquired in 2008. See “Item 4B. Business Overview—Capital Markets Activities and International Banking—International Banking.”

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

We are subject to the risk of legal claims and regulatory actions in the ordinary course of our business, which may expose us to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties and regulatory restrictions on our operations, as well as significant reputational harm. See “Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings.” The outcome of current and future legal claims and regulatory actions, which we cannot predict with any degree of certainty, may materially and adversely impact our business if such claims and actions are determined against us.

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

We seek to monitor and manage our risk exposure through a group-wide risk management platform, encompassing a multi-layered risk management governance structure, reporting and monitoring systems, early warning systems, a centralized credit risk management system for our banking operations and other risk management infrastructure, using a variety of risk management strategies and techniques. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk.” However, such risk management strategies and techniques employed by us and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of our risk management strategies and

techniques have a basis in historic market behavior that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, our risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as us to deal with such market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

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

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

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

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 40% to 80% of the appraised value of collateral (except in areas of high speculation designated by the government where we generally limit our lending to between 40% to 60% of the appraised value of collateral) and to periodically re-appraise our collateral, the downturn in the real estate market in Korea in recent years has resulted in declines in the value of the collateral securing our mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any future declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

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

Kookmin Bank, our banking subsidiary, has in the past breached covenants in some of its financing documents.

A number of the loan agreements of Kookmin Bank, our banking subsidiary, contain covenants that limit its ability to pledge its assets to secure indebtedness, to dispose, sell or transfer assets or to enter into arrangements having a similar effect. In early 2009, Kookmin Bank became aware that as a result of its financing activities undertaken in the ordinary course of its business, it had breached a number of these covenants. These financing activities are as follows:

- Kookmin Bank borrows funds made available to it by the Bank of Korea (most recently in connection with the Korean government's initiative to encourage Korean banks to provide financial support to

small- and medium-size enterprises) on a secured basis. See “—Risks relating to our small- and medium-sized enterprise loan portfolio—We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.”

- Kookmin Bank obtains financing through sale and repurchase arrangements involving the transfer of assets.
- Kookmin Bank enters into swap transactions under which from time to time it may post or transfer title to collateral.
- Kookmin Bank securitizes its assets from time to time for funding purposes.

The assets pledged or transferred through the above financing activities comprise mainly Korean government bonds and other types of securities and mortgage loans. In each case, these financing activities were in breach of one or more of the covenants set forth in, and triggered defaults under, the relevant loan agreements. These defaults resulted in consequential breaches of representations and covenants, defaults, cross-defaults and termination events in other financing documents (including loan agreements other than the aforementioned loan agreements), swap transactions, Kookmin Bank’s bond programs and securitizations.

During March and April 2009, Kookmin Bank sought and obtained waivers of the foregoing covenant breaches and default provisions from the lenders and agents under certain of the relevant loan agreements. Kookmin Bank also sought and entered into amendments to certain of the relevant loan agreements to ensure that it has the ability to enter into ordinary course financing activities, of the type described above, in the future. With respect to the relevant loan agreements for which Kookmin Bank did not obtain such amendments and waivers, Kookmin Bank repaid the related borrowings.

In addition, a number of Kookmin Bank’s loan agreements contain representations, covenants or events of default that were breached or triggered as a result of the comprehensive stock transfer pursuant to which we were established in 2008, including as a result of the delisting of Kookmin Bank’s common shares from the KRX KOSPI Market (formerly known as the Stock Market Division of the Korea Exchange), the delisting of the Kookmin Bank American depositary shares from the New York Stock Exchange and the adoption of a financial holding company structure pursuant to which Kookmin Bank’s former subsidiaries became our subsidiaries. During April 2009, Kookmin Bank sought and obtained certain waivers and amendments from relevant parties affected by technical defaults stemming from the comprehensive stock transfer.

However, we cannot assure you that Kookmin Bank’s counterparties or creditors under its other financing documents and instruments, including derivatives and swap transactions, sale and repurchase arrangements, bond issuances under Kookmin Bank’s bond programs and securitizations, will not seek to assert their contractual or other remedies for breach of representations, cross-default, cross-acceleration, termination events or failure to comply with the covenants or other terms under such other financing documents and instruments as a consequence of the defaults under the above-described loan agreements, which in turn may trigger other cross-default or cross-acceleration provisions. Any such developments may have an adverse effect on our liquidity and financial condition.

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

As of December 31, 2010, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include Korea Electric Power Corporation, the Bank of Korea, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea) with a total book value of (Won)8,861 billion in our trading and investment securities

portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full “marked-to-market” value at the time of any such sale of these securities and thus may incur losses.

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

We manage a number of money trust accounts through Kookmin Bank, our banking subsidiary. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank’s general banking operations. Those assets are not available to satisfy the claims of a bank’s depositors or other creditors of its general banking operations. For some of the trust accounts we manage, we have guaranteed the principal amount of the investor’s investment. Since January 2004, banks have been prohibited from providing new trust accounts that guarantee the principal amount of investments, other than certain retirement trust and annuity trust products. However, we will continue to provide guarantees with respect to existing accounts, which contain the aforementioned guarantee provisions.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from such trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2010, we had (Won)81 billion as special reserves in trust account assets for which we provided guarantees of principal. There was no transfer from general banking operations to cover deficiencies in guaranteed trust accounts in 2008, 2009 and 2010. However, we may be required to make transfers from our general banking operations to cover shortfalls, if any, in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches or unexpected disruptions in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and have an adverse effect on our business or reputation.

We may experience disruptions, delays and other difficulties from our information technology systems.

We rely on our information technology systems for our daily operations including customer service, transactions, billing and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers’ confidence in us.

We do not prepare interim financial information on a U.S. GAAP basis.

Neither we nor our subsidiaries are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See “Item 5B. Liquidity and Capital

Resources—Selected Financial Information under Korean GAAP” and “—Reconciliation with Korean GAAP.” As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 2006, 2007, 2008, 2009 and 2010 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

The adoption of International Financial Reporting Standards as adopted by Korea may adversely affect the our reported financial condition and results of operations.

Beginning in 2011, all listed companies in Korea are required to prepare their financial statements under International Financial Reporting Standards as adopted by Korea, or IFRS. As such, our quarterly and annual financial statements for 2011 and subsequent years will be prepared in accordance with IFRS. IFRS differs in significant respects from U.S. GAAP, particularly with respect to establishment of loan loss allowances and provisions. As a result, our allowance and provision levels, as well as certain other balance sheet and income statement items, reflected in our financial statements prepared in accordance with IFRS may differ substantially from those required to be reflected under U.S. GAAP.

Risks relating to liquidity and capital management

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

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate by a total of 325 basis points to support Korea’s economy amid the global financial crisis, and left such rate unchanged at 2% throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea increased its policy rate to 2.25% in July 2010, 2.50% in November 2010, 2.75% in January 2011, 3.00% in March 2011 and 3.25% in June 2011. All else being equal, an increase in interest rates leads to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

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

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2010, approximately 95.9% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of our short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations. See “Item 5B. Liquidity and Capital Resources—Financial Condition—Liquidity.”

We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favorable terms or at all.

Under the capital adequacy requirements of the Financial Services Commission, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, of 8.0%. In addition, pursuant to the capital adequacy requirements of the Financial Services Commission, Kookmin Bank, our banking subsidiary, is required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2010, our consolidated capital adequacy ratio was 13.08%, and Kookmin Bank's Tier I capital adequacy and its combined Tier I and Tier II capital adequacy ratio was 10.89% and 13.44%, respectively, all of which exceeded the minimum levels required by the Financial Services Commission. However, our capital base and capital adequacy ratios may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratios deteriorate, we may be required to obtain additional capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our banking license. For a description of the capital adequacy requirements of the Financial Services Commission, see "Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Capital Adequacy" and "Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy."

We may face increased capital requirements under the new Basel Capital Accord.

Beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, referred to as Basel II, in Korea, which has substantially affected the way risk is measured among Korean financial institutions, including Kookmin Bank. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk and market risk and on capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. Kookmin Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more risk-sensitive in assessing its credit risk capital requirements. In December 2007, the Financial Supervisory Service approved Kookmin Bank's internal ratings-based approach for credit risk, and Kookmin Bank became the first Korean bank permitted to use such internal ratings-based approach. For regulatory reporting purposes, Kookmin Bank has implemented its internal ratings-based approach for credit risk with respect to retail and small and medium-sized enterprise loans and asset-backed securities from January 2008, large corporate loans from June 2008 and retail SOHO loans from December 2008. Kookmin Bank plans to further implement its internal ratings-based approach to other classes of credit risk exposure on a phased rollout basis by the end of 2012 based on consultations with the Financial Supervisory Service and to implement its "Advanced Internal Ratings-based Approach" for credit risk for regulatory reporting purposes in the near future. A standardized approach is used in measuring credit risk for those classes of exposure for which Kookmin Bank's internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the government, public institutions and other banks) for which the internal ratings-based approach will not be applied. With respect to operational risk, Kookmin Bank implemented an "Advanced Measurement Approach" for regulatory reporting purposes beginning in January 2009.

While the implementation of Kookmin Bank's internal ratings-based approach in 2008 increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Kookmin Bank's credit risk capital requirements in the future, which may require Kookmin Bank to either improve its asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. The timing and scope of implementation of Basel III in Korea remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us.

See "Item 5A. Operating Results—Overview—New Basel Capital Accord" and "Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy."

Risks relating to government regulation and policy

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

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

In the past, the Korean government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise and retail borrowers. See "—Risks relating to our retail credit portfolio—Future changes in market conditions as well as other factors may lead to increases in delinquency levels of our retail loan portfolio" and "—Risks relating to our small- and medium-sized enterprise loan portfolio—We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us."

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions; and
- suspensions of a part or all of our business operations.

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

The Financial Investment Services and Capital Markets Act may intensify competition in the Korean financial industry.

In July 2007, the National Assembly of Korea enacted the Financial Investment Services and Capital Markets Act, a new law intended to enhance the integration of the Korean capital markets and financial investment products industry, which became effective in February 2009. As a result, Kookmin Bank and other banks in Korea face greater competition in the Korean financial services market from financial investment companies and other non-bank financial institutions. For example, securities companies previously were not permitted to accept deposits other than for purposes of securities investment by customers or provide secondary services in connection with securities investments such as settlement and remittance relating to such deposits. However, under the Financial Investment Services and Capital Markets Act, financial investment companies, which replaced securities companies, among others, are able to provide such secondary services. Accordingly, Kookmin Bank and other banks in Korea may experience a loss of customer deposits (which in turn may result in a need to seek alternative funding sources and an increase in its funding costs), as well as a decrease in its settlement and remittance service fee income.

Risks relating to Korea

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United

Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications.

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. Korea, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council issued a presidential statement that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In July 2009, North Korea test-fired several additional ballistic missiles into the sea between Korea and Japan.

In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. In May 2010, the Korean government formally accused North Korea of causing the sinking and demanded that North Korea apologize for the act and punish those responsible. The Korean government has also been seeking international condemnation against North Korea for the act. North Korea has threatened retaliation for any attempt to punish it over the incident. In November 2010, North Korea reportedly fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the maritime border between Korea and North Korea on the west coast of Korea, killing at least two Korean soldiers and two civilians, wounding many others and setting civilian houses on fire. Korea responded by firing artillery shells back, while putting the military on its highest level of alert in the west coast area. The Korean government condemned North Korea for the act and vowed stern retaliation should there be further provocation.

In addition, there recently has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for economic and political stability in the region. In June 2009, U.S. and Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, Kim Jong-eun, who is reportedly in his twenties, to become his successor. In September 2010, Kim Jong-eun was made a general in the North Korean army, named the vice chairman of the Central Military Commission and appointed to the Central Committee of the Workers' Party in a series of measures widely believed to be part of the succession plan. The succession plan, however, remains uncertain. In addition, North Korea's economy faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts break down or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond our control.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See “Other risks relating to our business—Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.” From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely. While such fluctuations have generally stabilized in the second half of 2010 and into 2011, there is no guarantee that they will not occur again in the future. See “Item 3A. Selected Financial Data—Exchange Rates.” A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index (known as the “KOSPI”) declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI has largely recovered since late 2008, there is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could hurt Korea’s economy in the future include:

- difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates and stock markets;
- adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- substantial decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- difficulties in the financial sector in Korea, including the savings bank sector;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Korean government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

- financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain *chaebols*;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners, such as the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and any resulting releases of radiation from damaged nuclear power plants in the area;
- the recurrence of severe acute respiratory syndrome, or SARS, or an outbreak of swine or avian flu or foot-and-mouth disease in Asia and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or civil unrest involving oil producing countries in the Middle East and Northern Africa and any material disruption in the supply of oil or increase in the price of oil;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

Labor unrest in Korea may adversely affect our operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate was 3.2% in 2007 and 2008, but increased to 3.6% in 2009 primarily as a result of adverse economic conditions in Korea and further increased to 3.7% in 2010. Future increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

Risks relating to our common stock and ADSs

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

In September 2009, we issued 30,000,000 new shares of our common stock (including 2,775,585 new shares in the form of ADSs) at a subscription price of (Won)37,250 per share (and US\$29.95 per ADS), pursuant to a rights offering to our existing shareholders. We have no current plans for any subsequent public offerings of our common stock, ADSs or securities exchangeable for or convertible into such securities. However, it is possible that we may decide to offer or sell such securities in the future. In particular, as of March 31, 2011, Kookmin Bank, our wholly-owned subsidiary, owned 34,966,962 shares of our common stock, or approximately 9.05% of

our total issued common stock. We are required under applicable Korean law to dispose of such shares by September 2011. Accordingly, we may decide to offer and sell such shares, in one or more transactions, at any time prior to September 2011. In addition, our major stockholders, ING Bank N.V. and the Korean National Pension Service, held approximately 5.0% and 4.9%, respectively, of our total issued common stock as of December 31, 2010, which they may sell at any time.

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

Ownership of our common stock is restricted under Korean law.

Under the Financial Holding Company Act, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the issued and outstanding shares of voting stock of a bank holding company such as us that controls a nationwide bank, with the exception of certain stockholders that are non-financial business group companies, whose applicable limit is 9.0%. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds the applicable limits, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order that holder to dispose of the excess shares within a period of up to six months. Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank holding company or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank holding company and participate in the management of such company in the manner prescribed in the Enforcement Decree of the Financial Holding Company Act. If non-financial business group companies hold voting stock of a bank holding company in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders' of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of "non-financial business group companies" under the Financial Holding Company Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal. See "Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Ownership of a Financial Holding Company."

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

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

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

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depository's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depository and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

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

such common stock will not be accepted for deposit unless

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

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

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

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depository, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depository, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and:

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

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

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

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

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

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

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. The KOSPI was 2,031.9 on June 17, 2011. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

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

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

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

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

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

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

Item 4. INFORMATION ON THE COMPANY

Item 4A. *History and Development of the Company*

Overview

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

Our legal and commercial name is KB Financial Group Inc. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-2073-7114. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

History of the Former Kookmin Bank

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

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

History of H&CB

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20% of H&CB’s lending (excluding lending pursuant to government programs) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB

representing 9.99999% of H&CB's outstanding common shares. As of December 31, 2010, ING Groep N.V. beneficially owned 5.0% of our issued common stock. For more details regarding our relationship with ING Groep N.V., see "Item 4B. Business Overview—Other Businesses—Bancassurance," "Item 7B. Related Party Transactions" and "Item 10C. Material Contracts."

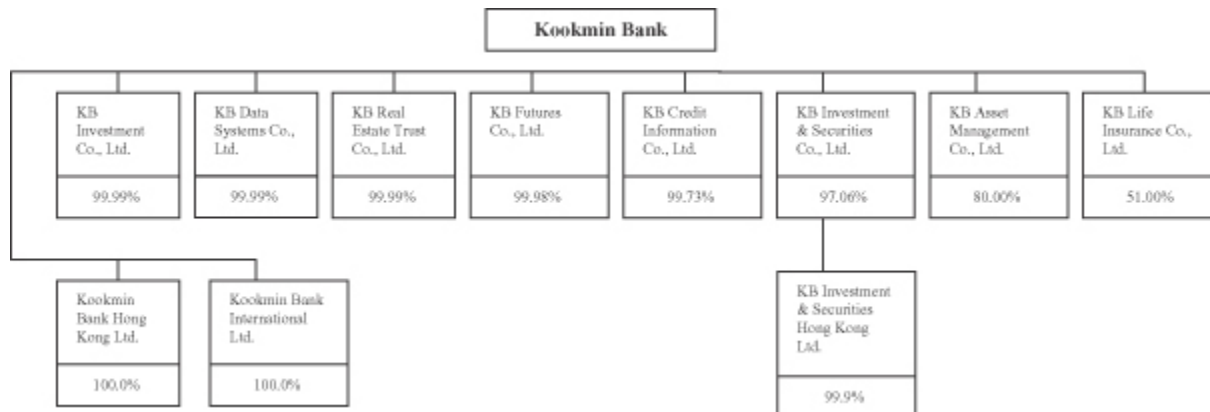
The Merger of the Former Kookmin Bank and H&CB

Effective November 1, 2001, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Kookmin Bank's ADSs were listed on the New York Stock Exchange on November 1, 2001 and its common shares were listed on the KRX KOSPI Market on November 9, 2001. As of October 31, 2001, H&CB's total assets were (Won)67,399 billion, its total deposits were (Won)51,456 billion, its total liabilities were (Won)64,537 billion and it had stockholders' equity of (Won)2,849 billion. As required by U.S. GAAP, we recognized H&CB's total assets and liabilities at their estimated fair values of (Won)68,329 billion and (Won)64,840 billion, respectively. These amounts reflect the recognition of (Won)562 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed.

The Establishment of KB Financial Group

We were established on September 29, 2008 pursuant to a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us, a new financial holding company, and in return received shares of our common stock. In the stock transfer, each holder of one share of Kookmin Bank common stock received one share of our common stock, par value (Won)5,000 per share. Holders of Kookmin Bank ADSs and global depositary shares, each of which represented one share of Kookmin Bank common stock, received one of our ADSs for every ADS or global depositary share they owned. In addition, holders of the common stock of KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd., and KB Data Systems Co., Ltd., all of which were Kookmin Bank's subsidiaries, transferred all of their shares to us and, as consideration for such transferred shares, received shares of our common stock in accordance with the specified stock transfer ratio applicable to each such subsidiary. Following the completion of the stock transfer, Kookmin Bank, KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd., and KB Data Systems Co., Ltd. became our wholly-owned subsidiaries. The stock transfer was accounted for under U.S. GAAP as a transaction between entities under common control and, with respect to the transfer by noncontrolling stockholders of Kookmin Bank's subsidiaries included in the stock transfer, the acquisition by us of such noncontrolling interests of such subsidiaries was accounted for using the purchase method. Accordingly, the consolidated financial statements included in this annual report are, as of dates and for periods prior to the date of the stock transfer, for Kookmin Bank and its subsidiaries, and as of dates and for periods from and after the date of the stock transfer, for us and our subsidiaries, including Kookmin Bank. For further information regarding the accounting treatment of the stock transfer, see Note 3 of the notes to our consolidated financial statements.

The following chart illustrates the organizational structure of Kookmin Bank prior to the completion of the stock transfer:



The following chart illustrates our organizational structure after the completion of the stock transfer:



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

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

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

In connection with the stock transfer, Kookmin Bank common stockholders who opposed the stock transfer were entitled to exercise appraisal rights and require Kookmin Bank to repurchase their shares in the event the stock transfer was completed. The purchase price for shares in respect of which appraisal rights were exercised was set at (Won)63,293 per share. Kookmin Bank repurchased 38,263,249 shares of its common stock as a result of the exercise of appraisal rights by dissenting stockholders. In addition, prior to the stock transfer, Kookmin Bank executed a share buy back program, pursuant to which it repurchased 16,840,000 shares of its common stock. Accordingly, as a result of the transfer by Kookmin Bank of such treasury shares and the shares it held in its subsidiaries to us, Kookmin Bank received 73,607,601 shares of our common stock in the stock transfer, some of which it subsequently sold. As of March 31, 2011, Kookmin Bank owned 34,966,962 shares of our common stock, representing approximately 9.05% of our total issued common stock.

Item 4B. Business Overview

Business

We are one of the largest financial holding companies in Korea, in terms of consolidated total assets, and our operations include Kookmin Bank, the largest commercial bank in Korea in terms of total assets (including loans). Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, asset management, life insurance, capital markets activities and international banking. As of December 31, 2010, we had consolidated total assets of (Won)252 trillion, consolidated total deposits of (Won)180 trillion and consolidated stockholders' equity of (Won)17 trillion.

We were established as a financial holding company in September 2008, pursuant to a "comprehensive stock transfer" under Korean law. See "Item 4A. History and Development of the Company—The Establishment of KB Financial Group."

On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes. We provide these services predominantly through Kookmin Bank.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined banking network of 1,173 branches as of December 31, 2010, one of the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2010, we had a customer base of approximately 26 million retail customers, which represented approximately one-half of the Korean population.

The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2010 retail loans, credit card loans and credit card receivables accounted for 56.3% of our total loan portfolio:

	As of December 31,					
	2008		2009		2010	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity ⁽¹⁾	(Won) 69,924	35.0%	(Won) 70,678	36.0%	(Won) 70,443	35.9%
Other consumer ⁽²⁾	27,592	13.8	26,949	13.7	27,790	14.1
Total retail	97,516	48.8	97,627	49.7	98,233	50.0
Credit card	11,523	5.8	11,368	5.8	12,395	6.3
Corporate	88,143	44.2	84,886	43.3	83,380	42.4
Capital markets activities and international banking	2,455	1.2	2,344	1.2	2,488	1.3
Total loans	<u>(Won)199,637</u>	<u>100.0%</u>	<u>(Won)196,225</u>	<u>100.0%</u>	<u>(Won)196,496</u>	<u>100.0%</u>

⁽¹⁾ Includes (Won)1,113 billion, (Won)1,116 billion and (Won)1,025 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2008, 2009 and 2010, respectively.

⁽²⁾ Includes (Won)8,994 billion, (Won)8,992 billion and (Won)8,650 billion of overdraft loans as of December 31, 2008, 2009 and 2010, respectively.

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

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

In keeping with current industry trends, our credit exposure to large corporate customers has in recent years decreased slightly as a percentage of our total loan portfolio. However, we continue to seek to maintain and expand quality relationships by providing these customers with an increasing range of fee-related services.

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly in recent years as the nationwide trend towards credit card use accelerated. As of December 31, 2010, we had approximately 10.5 million holders of KB Card. In March 2011, we effected a horizontal spin-off of the credit card business from Kookmin Bank. As a result, our credit card business is operated by a newly established wholly-owned subsidiary, KB Kookmin Card Co., Ltd.

Strategy

Our strategic focus is to become a world-class financial group that ranks among the leaders of the financial industry in Asia and globally. We plan to continue to solidify our market position as Korea's leading bank, enhance our ability to provide comprehensive financial services to our retail and corporate customers and strengthen our overseas operating platform and network. We believe our strong market position in the commercial banking area in Korea is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

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

We believe the Korean financial services market has been undergoing and will continue to undergo significant change, including as a result of the effectiveness of the Financial Investment Services and Capital Markets Act in February 2009, and that the resulting trend toward consolidation and convergence, as well as the growing presence of foreign financial institutions in the Korean financial market and the expansion of the overseas presence and operations of Korean financial institutions, may provide significantly greater competition for us in the future. In the context of such changes, we plan to become a comprehensive financial services provider capable of offering a full range of products and services to our large existing base of retail and corporate banking customers, as well as a global firm that can effectively compete with leading international financial institutions. To that end, we are continuing to implement specific initiatives including the enhancement of our group-wide integrated customer relationship management system to facilitate the sharing of customer information and the integration of various customer loyalty programs among our subsidiaries.

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

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

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

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, we have increasingly targeted specific market segments in Korea that we expect to generate superior growth and profitability. We will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, we intend to increase our “wallet share” of superior existing customers by using our advanced customer relationship management technology to better identify and meet the needs of our most creditworthy and high net worth customers, on whom we intend to concentrate our marketing efforts.

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

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

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

Focusing on expanding and improving credit quality in our corporate lending business

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

- promote a more balanced and strengthened portfolio with respect to our corporate business by developing our large corporate customer base and utilizing our improved credit management operations to better evaluate new large corporate and small- and medium-sized enterprise customers;
- develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk;
- generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products, as well as investment banking services;
- strengthen our marketing system based on our accumulated expertise in order to attract top-tier corporate customers;
- focus on enhancing our channel network in order to provide the best service by strengthening our corporate customer management; and
- further develop and train our core professionals with respect to this market, including through programs such as the "Career Development Path."

Strengthening internal risk management capabilities

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

- *Strengthening underwriting procedures with advanced credit scoring techniques.* We have centralized our credit management operations into our credit group. Through such centralization, we aim to

enhance our credit management expertise and improve our system of checks-and-balances with respect to our credit portfolio. We have also improved our ability to evaluate the credit of our small- and medium-sized enterprise customers through assigning experienced credit officers to our regional credit offices. We also require the same officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which we believe enhances the expertise and improves the efficiency and accountability of such officer, while enabling us to maintain a consistent credit policy. We have also, as a general matter, implemented enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our asset quality through improvement of our early monitoring systems and collection procedures.

- *Improving our internal compliance policy and ensuring strict application in our daily operations.* We have improved our monitoring capabilities with respect to our internal compliance by providing training and educational programs to our management and employees. We have also implemented strict compliance policies to maintain the integrity of our risk management system.

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

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

Retail Banking

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

Lending Activities

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

	As of December 31,					
	2008		2009		2010	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	(Won)69,924	35.0%	(Won)70,678	36.0%	(Won)70,443	35.9%
Other consumer loans ⁽¹⁾	27,592	13.8	26,949	13.7	27,790	14.1
Total	<u>(Won)97,516</u>	<u>48.8%</u>	<u>(Won)97,627</u>	<u>49.7%</u>	<u>(Won)98,233</u>	<u>50.0%</u>

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

Our retail loans consist of:

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

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we generally limit our lending to between 40% to 60% of the appraised value of collateral) minus the value of any lien or other security interests that are prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 40% to 80% (40% to 60% in the case of mortgage and home equity loans). This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

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

Mortgage and Home Equity Lending

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

Private sector mortgage and home equity lending in Korea has expanded substantially in recent years. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. The maximum term of mortgage loans is 35 years and the majority of our mortgage loans have long-term maturities, which may be renewed. Non-amortizing home equity loans have an initial maturity of one year, which may be extended on an annual basis for a maximum of five years. Home equity loans subject to amortization of principal may have a maximum term of up to 35 years. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2010, 73.3% of our mortgage loans were secured by residential property which is the subject of the loan, 6.7% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 20.0% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks,

provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended December 31, 2010, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 46%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the “*jeonsae*” system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower’s property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower’s property. This is in the event that the borrower’s property is seized by a creditor, and the renter is no longer able to reside at that property. See “Item 3D. Risk Factors—Other risks relating to our business—A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.” As a result of government initiatives, we have also tightened our mortgage loan guidelines.

Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. We can adjust the price to reflect the borrower’s current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.7% to 1.4% of the loan amount in addition to the accrued interest.

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

As of December 31, 2010, our three-month, six-month and twelve-month base rates were 2.80%, 2.92% and 3.24%, respectively.

As of December 31, 2010, 97% of our outstanding mortgage and home equity loans was priced based on a floating rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2010, approximately (Won)15,957 billion, or 57.4% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and generally have an initial maturity of one year, which is typically extended automatically on an annual basis and may be extended up to a maximum of five years. The amount of overdraft loans as of December 31, 2010 was approximately (Won)8,650 billion.

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

As of December 31, 2010, 99% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-taking Activities

Due to our extensive nationwide network of branches, together with our long history of development and our resulting know-how and expertise, as of December 31, 2010, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was W97,378 billion, (Won)100,778 and (Won)111,489 billion as of December 31, 2008, 2009 and 2010, respectively, which constituted 61.4%, 59.6%, and 62.0% respectively, of the balance of our total deposits.

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

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted 2.1% of our total deposits as of December 31, 2010 and paid average interest of 1.27% for 2010.
- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted 63.8% of our total deposits as of December 31, 2010 and paid average interest of 3.62% for 2010. Most installment savings deposits offer fixed interest rates.
- *Savings deposits*, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 4.4%. Retail and corporate savings deposits constituted 29.3% of our total deposits as of December 31, 2010 and paid average interest of 0.42% for 2010.
- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of W5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.
- *Foreign currency deposits*, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. We offer foreign currency time deposits and checking and passbook accounts in ten currencies.

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

We also offer deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

- *Housing subscription time deposits*, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Law. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the location of the holder's current residence and the size of the desired apartment unit. These deposit products target high and middle income households.

- *Housing subscription installment savings deposits*, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Law. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

Since 2004, we have been operating a “priority customer” program called KB Star Club through Kookmin Bank and, beginning in February 2010, also through KB Investment & Securities and KB Life Insurance. This program categorizes our customers by their average deposit balance for the most recent three-month period, the amount of their transactions with us and their program points based on such balances and transactions. A customer may receive preferential treatment in various areas, including interest rates and transaction fees, depending upon how the customer is classified. As of December 31, 2010, we had over four million KB Star Club customers, representing approximately 17% of our total retail customer base of approximately 26 million retail customers. In 2010, on an average balance basis, our KB Star Club customers held approximately 88% of our total retail customer deposits.

In 2002, after significant research and planning, we launched private banking operations at Kookmin Bank’s headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of March 31, 2011, we operated 24 private banking centers through Kookmin Bank. We believe that by offering high quality personal wealth management services to these customers, including through our exclusive brand “Gold & Wise”, we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

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

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See “—Supervision and Regulation—Principal Regulations Applicable to Banks—Deposit Insurance System.” We pay a premium rate of 0.02% of our average deposits for each quarter and we paid (Won)110 billion for 2010.

Credit Cards

Credit cards are another of our core retail products. As a result of the merger of the former Kookmin Bank with H&CB, for a period of time we issued and operated two brands of credit cards, Kookmin Card and BC Card. Following the merger of Kookmin Bank with its subsidiary, Kookmin Credit Card, in September 2003, we adopted a strategy of trying to unify the two brands. Accordingly, commencing in October 2003, we have been issuing most of our new credit cards under the “KB Card” brand. In March 2011, we effected a horizontal spin-off of the credit card business from Kookmin Bank. As a result, our credit card business is operated by a newly established wholly-owned subsidiary, KB Kookmin Card Co., Ltd.

The following table sets forth certain data relating to our credit card operations. All financial figures appearing below have been prepared in accordance with Korean GAAP, which differs significantly from U.S. GAAP. See “Item 5B. Liquidity and Capital Resources—Reconciliation with Korean GAAP.”

	As of and for the Year Ended December 31,		
	2008	2009	2010
	(in billions of Won, except number of holders, accounts and percentages)		
Number of credit cardholders (at year end) (thousands)			
General accounts	9,241	9,716	10,169
Corporate accounts	232	290	341
Total	<u>9,473</u>	<u>10,006</u>	<u>10,510</u>
Number of merchants (at year end) (thousands)	1,869	1,995	2,114
Active ratio (at year end) ⁽¹⁾	74.2%	73.3%	74.0%
Credit card fees			
Merchant fees ⁽²⁾	(Won) 1,114	(Won) 1,220	(Won) 1,182
Installment and cash advance fees	736	736	631
Annual membership fees	38	46	48
Other fees	490	550	694
Total	<u>(Won) 2,378</u>	<u>(Won) 2,552</u>	<u>(Won) 2,555</u>
Charge volume ⁽³⁾			
General purchase	(Won)46,221	(Won)45,805	(Won)48,527
Installment purchase	8,399	9,503	10,790
Cash advance	15,023	13,378	12,262
Card loan ⁽⁴⁾	4,554	3,970	4,535
Total	<u>(Won)74,197</u>	<u>(Won)72,656</u>	<u>(Won)76,114</u>
	As of and for the Year Ended December 31,		
	2008	2009	2010
	(in billions of Won, except number of holders, accounts and percentages)		
Outstanding balance (at year end) ⁽⁵⁾			
General purchase	(Won) 4,114	(Won) 4,330	(Won) 4,684
Installment purchase	1,993	2,229	2,581
Cash advance	2,531	2,260	2,225
Card loan ⁽⁴⁾	2,889	2,565	2,928
Total ⁽⁶⁾	<u>(Won)11,527</u>	<u>(Won)11,384</u>	<u>(Won)12,418</u>
Average outstanding balances ⁽⁵⁾			
General purchase	(Won) 3,979	(Won) 4,232	(Won) 4,512
Installment purchase	1,894	2,145	2,457
Cash advance	2,427	2,352	2,194
Card loan ⁽⁴⁾	2,617	2,636	2,763
Delinquency ratios (at year end) ⁽⁷⁾			
Less than 1 month ⁽⁸⁾	2.47%	1.56%	1.30%
From 1 month to 3 months	1.21	0.79	0.73
From 3 months to 6 months	0.22	0.17	0.11
Over 6 months	0.03	0.12	0.18
Total	<u>3.93%</u>	<u>2.64%</u>	<u>2.32%</u>

	As of and for the Year Ended December 31,		
	2008	2009	2010
	(in billions of Won, except number of holders, accounts and percentages)		
Non-performing loan ratio			
Reported	0.91%	0.80%	0.68%
Managed	0.91%	0.80%	0.68%
Write-offs (gross)	(Won) 379	(Won) 560	(Won) 309
Recoveries ⁽⁹⁾	274	256	245
Net write-offs	(Won) 105	(Won) 304	(Won) 64
Gross write-off ratio ⁽¹⁰⁾	3.47%	4.93%	2.60%
Net write-off ratio ⁽¹¹⁾	0.96%	2.68%	0.54%
Asset sales	—	—	—
Asset securitization ⁽¹²⁾	(Won) —	(Won) —	(Won) —

- (1) The active ratio represents the ratio of accounts used at least once within the last six months to total accounts as of year end.
- (2) Merchant fees consist of merchant membership and maintenance fees, costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, bad debt expenses, general variable expenses and other fixed costs that are charged to our member merchants. We typically charge our member merchants fees that range from 1.5% to 4.5%.
- (3) Represents the aggregate cumulative amount charged during the year.
- (4) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.
- (5) Includes certain interest trust certificates issued by special purpose entities in connection with asset securitization transactions of our underlying credit card balances. Transfers of credit card balances to special purpose entities in connection with asset securitization transactions are recognized as sales under Korean GAAP but not under U.S. GAAP.
- (6) The total outstanding balances pursuant to U.S. GAAP for all of our credit cards were (Won)11,523 billion as of December 31, 2008, (Won)11,368 billion as of December 31, 2009 and (Won)12,395 billion as of December 31, 2010.
- (7) Represents ratio of delinquencies to outstanding balance. In line with industry practice, we have restructured a portion of delinquent credit card account balances as loans. As of December 31, 2010, these restructured loans amounted to (Won)25 billion. Because these restructured loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances.
- (8) The amount of delinquent credit card balances recognized for the calculation of the delinquency ratio for less than one month is the total amount of such credit card balance for which the payments are overdue by less than one month, including those portions not yet due and payable.
- (9) Does not include proceeds that we received from sales of our non-performing loans that were written off.
- (10) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.
- (11) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.
- (12) Comprises credit card balances that were transferred in asset securitization transactions. Under U.S. GAAP, these transfers are not recognized as sales.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required

minimum percentage is repaid, credit cardholders in Korea are generally required to pay for their purchases within approximately 17 to 47 days of purchase depending on their payment cycle. However, we also offer revolving cards to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the terms of repayment.

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

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

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

As of December 31, 2010, we had approximately 10.5 million cardholders. Of the credit cards outstanding, approximately 74.0% were active, meaning that they had been used at least once during the previous six months. For 2010, our market share with respect to charge volume was approximately 13.6% according to the Financial Supervisory Service.

Our card revenues consist principally of cash advance fees, merchant fees, credit card installment fees, interest income from credit card loans, annual fees paid by cardholders, interest and fees on late payments and, with respect to revolving cards we offer, interest and fees relating to revolving balances. Cardholders are generally required to pay for their purchases within 17 to 47 days after the date of purchase, depending on their payment cycle. Except in the case of installment purchases, accounts which remain unpaid after this period are deemed to be delinquent.

We generate other fees through a processing charge on merchants, with the average charge equaling approximately 2.23%.

Under non-exclusive license agreements with MasterCard International Incorporated and Visa International Service Association, we also issue MasterCard and Visa credit cards.

We also issue debit cards and charge merchants an average commission of approximately 1.19% of the amounts purchased using a debit card. We also issue "check cards", which are similar to debit cards except that "check cards" are accepted by all merchants that accept credit cards. Much like debit cards, "check card" purchases are also debited directly from customers' accounts with us.

Corporate Banking

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2008, 2009 and 2010, we had 177,190, 220,407 and 227,860 small- and medium-sized enterprise borrowers and 994, 941 and 993 large corporate borrowers, respectively, for Won-currency loans. For 2008, 2009 and 2010, we received fee revenue from cash management services offered to corporate customers, which include “firm-banking” services such as inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of (Won)108 billion, (Won)115 billion and (Won)112 billion, respectively. Of our branch network as of December 31, 2010, we had eight branches that primarily handled large corporate banking.

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

	As of December 31,					
	2008		2009		2010	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	(Won)65,394	32.8%	(Won)67,121	34.2%	(Won)66,308	33.7%
Large corporate loans	22,749	11.4	17,765	9.1	17,072	8.7
Total	<u>(Won)88,143</u>	<u>44.2%</u>	<u>(Won)84,886</u>	<u>43.3%</u>	<u>(Won)83,380</u>	<u>42.4%</u>

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

The total amount of deposits from our corporate customers amounted to (Won)59,335 billion as of December 31, 2010, or 33.0% of our total deposits.

Small- and Medium-sized Enterprise Banking

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

We use the term “small- and medium-sized enterprises” as defined in the Small and Medium Industry Basic Act and related regulations. The general criterion used to define small- and medium-sized enterprises is either the number of full-time employees (less than 300), paid-in capital (equal to or less than (Won)8 billion) or sales revenues (equal to or less than (Won)30 billion). Criteria differ from industry to industry. In all cases, however, the number of full-time employees may not equal or exceed 1,000, and the total amount of assets may not equal or exceed (Won)500 billion.

Industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises increased in 2010 and further increased in the first quarter of 2011. Our delinquency ratio for loans to small- and

medium-sized enterprises may increase further in the future as a result of, among other things, adverse economic conditions in Korea and globally. See “Item 3D. Risk Factors—Other risks relating to our business—Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.” In addition, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea, the Korean government has in recent years introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See “Item 3D. Risk Factors—Risks relating to our small- and medium-sized enterprise loan portfolio—We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.”

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2010, working capital loans and facilities loans accounted for 71.4% and 28.6%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2010, we had over 227,800 small- and medium-sized enterprise customers on the lending side.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or may be unsecured. As of December 31, 2010, secured loans and guaranteed loans accounted for, in the aggregate, 87.8% of our small- and medium-sized enterprise loans. Among the secured loans, 55.7% were secured by real estate and 44.3% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of five years. Facilities loans have a maximum maturity of ten years for loans to corporations and 15 years for loans to SOHOs.

When evaluating the extension of working capital loans, we review the corporate customer’s creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral, and may require additional collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous 5 years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

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

A substantial number of our small- and medium-sized enterprise customers are SOHOs, which we currently define to include sole proprietorships and individual business interests. With respect to SOHOs, we apply credit

risk evaluation models, which not only uses quantitative analysis related to a customer's accounts, personal credit and financial information and due amounts but also requires our credit officers to perform a qualitative analysis of each potential SOHO customer. With respect to SOHOs with annual revenues in excess of W2 billion or SOHO loans in excess of W300 million, our credit risk evaluation model also includes a quantitative analysis of the financial statements of the underlying business. We generally lend to SOHOs on a secured basis, although a small portion of our SOHO exposures are unsecured.

Pricing

We establish the price for our corporate loan products (other than collective housing loans) based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system, which is a periodic floating rate system that takes into account the current market interest rate. As of December 31, 2010, the Market Opportunity Rate was 2.80% for three months, 2.92% for six months and 3.24% for one year.

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

The interest rates on our collective housing loans are based on a periodic floating rate, which in turn is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system. After selecting the appropriate periodic floating rate, our loan analysis system raises or lowers the floating rate based on various factors related to the loan and the borrower. In addition, we take into account the market conditions and our expenses and services to be provided with respect to such loan. The repayment schedule differs according to the variable term, repayment method and the particular loan. If a loan is terminated prior to its maturity, the corporate borrower is obligated to pay us an early termination fee in addition to the accrued interest.

Large Corporate Banking

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

Lending Activities

Our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2010, working capital loans and facilities loans accounted for 80.0% and 20.0%, respectively, of our total large corporate loans. We also offer collective housing loans, as described above under "—Small- and Medium-sized Enterprise Banking—Lending Activities," to large corporate clients.

As of December 31, 2010, secured loans and guaranteed loans accounted for, in the aggregate, 30.4% of our large corporate loans. Among the secured loans, 25.1% were secured by real estate and 74.9% were secured by deposits or securities. Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of five years. Facilities loans have a maximum maturity of 10 years.

We evaluate creditworthiness and collateral for our large corporate loans in essentially the same way as we do for small- and medium-sized enterprise loans. See "—Small- and Medium-sized Enterprise Banking—Lending Activities" above.

As of December 31, 2010, in terms of our outstanding loan balance, 37.9% of our large corporate loans was extended to borrowers in the manufacturing industry, 12.3% was extended to borrowers in the construction industry, and 9.4% was extended to borrowers in the financial and insurance industry.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See “—Small- and Medium-sized Enterprise Banking—Pricing” above. As of December 31, 2010, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

Capital Markets Activities and International Banking

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

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2008, 2009 and 2010, our investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won) 34,461 billion, (Won)37,706 billion and (Won)37,607 billion and represented 13.3%, 14.9% and 14.9% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 2008, 2009 and 2010, we held debt securities with a total book value of (Won)32,036 billion, (Won) 34,392 billion and (Won)33,904 billion, respectively, of which:

- held-to-maturity debt securities accounted for (Won)12,600 billion, (Won)12,610 billion and (Won)13,076 billion, or 39.3%, 36.7% and 38.6%, respectively;
- available-for-sale debt securities accounted for (Won)14,402 billion, (Won)17,576 billion and (Won)17,309 billion, or 45.0%, 51.1% and 51.0%, respectively; and
- trading debt securities accounted for (Won)5,034 billion, (Won)4,206 billion and (Won)3,519 billion, or 15.7%, 12.2% and 10.4%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2008, 2009 and 2010 amounted to:

- (Won)9,139 billion, (Won)8,992 billion and (Won)10,525 billion, or 72.5%, 71.3% and 80.5%, respectively, of our held-to-maturity debt securities;
- (Won)6,979 billion, (Won)7,892 billion and (Won)8,213 billion, or 48.5%, 44.9% and 47.5%, respectively, of our available-for-sale debt securities; and
- (Won)1,780 billion, (Won)1,359 billion and (Won)911 billion, or 35.4%, 32.3% and 25.9%, respectively, of our trading debt securities.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market (formerly known as the KOSDAQ Market Division of the Korea Exchange). As of December 31, 2008, 2009 and 2010:

- equity securities in our available-for-sale portfolio had a book value of (Won)404 billion, (Won)1,135 billion and (Won) 1,327 billion, or 2.7%, 6.1% and 7.1% of our available-for-sale portfolio, respectively; and

- equity securities in our trading portfolio had a book value of (Won)217 billion, (Won)254 billion and (Won)176 billion, or 4.1%, 5.7% and 4.8% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes foreign exchange spot contracts and derivative instruments. See “—Derivatives Trading.” Our investment portfolio also includes venture capital securities, non-marketable or restricted equity securities and investments under the equity method. As of December 31, 2008, 2009 and 2010, these investments had an aggregate book value of (Won)1,804 billion, (Won)1,925 billion and (Won)2,199 billion, respectively.

The following tables show, as of the dates indicated, the gross unrealized gains and losses on available-for-sale and held-to-maturity securities within our investment securities portfolio, and the amortized cost and fair value of the portfolio by type of investment security:

	As of December 31, 2008			Fair value
	Amortized cost	Gross unrealized gain (in billions of Won)	Gross unrealized loss	
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 6,757	(Won) 223	(Won) 1	(Won) 6,979
Corporate ⁽¹⁾	998	126	7	1,117
Financial institutions ⁽²⁾	6,038	134	12	6,160
Asset-backed securities	145	1	—	146
Subtotal	13,938	484	20	14,402
Equity securities	401	9	6	404
Total available-for-sale securities	<u>(Won)14,339</u>	<u>(Won) 493</u>	<u>(Won) 26</u>	<u>(Won)14,806</u>
Held-to-maturity securities:				
Korean treasury securities and government agencies	(Won) 9,139	(Won) 245	(Won) 16	(Won) 9,368
Corporate ⁽³⁾	249	3	1	251
Financial institutions ⁽⁴⁾	2,980	43	14	3,009
Asset-backed securities	232	5	—	237
Total held-to-maturity securities	<u>(Won)12,600</u>	<u>(Won) 296</u>	<u>(Won) 31</u>	<u>(Won)12,865</u>

As of December 31, 2009				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 7,855	(Won) 68	(Won) 31	(Won) 7,892
Corporate ⁽¹⁾	1,183	104	6	1,281
Financial institutions ⁽²⁾	6,336	85	16	6,405
Asset-backed securities	1,998	1	1	1,998
Subtotal	<u>17,372</u>	<u>258</u>	<u>54</u>	<u>17,576</u>
Equity securities	<u>924</u>	<u>257</u>	<u>46</u>	<u>1,135</u>
Total available-for-sale securities	<u>(Won)18,296</u>	<u>(Won) 515</u>	<u>(Won) 100</u>	<u>(Won)18,711</u>
Held-to-maturity securities:				
Korean treasury securities and government agencies	(Won) 8,992	(Won) 106	(Won) 34	(Won) 9,064
Corporate ⁽³⁾	380	4	2	382
Financial institutions ⁽⁴⁾	2,995	48	3	3,040
Asset-backed securities	243	3	—	246
Total held-to-maturity securities	<u>(Won)12,610</u>	<u>(Won) 161</u>	<u>(Won) 39</u>	<u>(Won)12,732</u>

As of December 31, 2010				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 8,094	(Won) 123	(Won) 4	(Won) 8,213
Corporate ⁽¹⁾	1,264	30	9	1,285
Financial institutions ⁽²⁾	5,945	67	12	6,000
Asset-backed securities	1,802	9	—	1,811
Subtotal	<u>17,105</u>	<u>229</u>	<u>25</u>	<u>17,309</u>
Equity securities	<u>958</u>	<u>369</u>	<u>—</u>	<u>1,327</u>
Total available-for-sale securities	<u>(Won)18,063</u>	<u>(Won) 598</u>	<u>(Won) 25</u>	<u>(Won)18,636</u>
Held-to-maturity securities:				
Korean treasury securities and government agencies	(Won)10,525	(Won) 333	(Won) 7	(Won)10,851
Corporate ⁽³⁾	573	15	1	587
Financial institutions ⁽⁴⁾	1,585	52	—	1,637
Asset-backed securities	393	6	1	398
Total held-to-maturity securities	<u>(Won)13,076</u>	<u>(Won) 406</u>	<u>(Won) 9</u>	<u>(Won)13,473</u>

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- (1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)296 billion as of December 31, 2008, (Won)334 billion as of December 31, 2009 and (Won)247 billion as of December 31, 2010.
 - (2) Includes debt securities issued by the Bank of Korea, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea in the aggregate amount of (Won)2,878 billion as of December 31, 2008, (Won)3,339 billion as of December 31, 2009 and (Won)3,079 billion as of December 31, 2010. These financial institutions are controlled by the Korean government.
 - (3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)160 billion as of December 31, 2008, (Won)280 billion as of December 31, 2009 and (Won)443 billion as of December 31, 2010.
 - (4) Includes debt securities issued by the Bank of Korea, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea in the aggregate amount of (Won)1,005 billion as of December 31, 2008, (Won)1,032 billion as of December 31, 2009 and (Won)435 billion as of December 31, 2010. These financial institutions are controlled by the Korean government.

Derivatives Trading

Until the full-scale launch of our derivatives operations in mid-1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased to (Won)207,083 billion in 2008, but decreased to (Won)173,502 billion in 2009 primarily as a result of instability in the financial markets but increased slightly to (Won)174,634 billion in 2010. Our net trading revenue from derivatives and foreign exchange contracts for the year ended December 31, 2008, 2009 and 2010 was (Won)36 billion, (Won)181 billion and (Won)390 billion, respectively.

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

- Won interest rate swaps, relating to Won interest rate risks;
- cross-currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;
- foreign exchange forwards, swaps and options, relating to foreign exchange risks; and
- equity options on the KOSPI index.

Our derivatives operations focus on addressing the needs of our corporate clients to hedge their risk exposure and to hedge our risk exposure that results from such client contracts. We also engage in derivatives trading activities to hedge the interest rate and foreign currency risk exposures that arise from our own assets and liabilities. A substantial portion of these hedge-purposed derivatives contracts, however, do not qualify for hedge accounting under U.S. GAAP and are consequently treated as trading derivatives. In addition, we engage in proprietary trading of derivatives within our regulated open position limits.

The following shows the estimated fair value of our derivatives and foreign exchange spot contracts as of December 31, 2008, 2009 and 2010:

	As of December 31,					
	2008		2009		2010	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 3	(Won) 3	(Won) 3	(Won) 3	(Won) 1	(Won) 2
Foreign exchange derivatives ⁽¹⁾	6,579	5,785	2,593	1,918	1,748	1,303
Interest rate derivatives ⁽¹⁾	1,226	1,403	621	823	705	732
Equity derivatives	84	638	86	322	39	142
Credit derivatives	—	10	2	—	2	—
Commodity derivatives	18	17	2	2	—	—
Others ⁽¹⁾	7	10	2	40	4	28
Total	<u>(Won)7,917</u>	<u>(Won)7,866</u>	<u>(Won)3,309</u>	<u>(Won)3,108</u>	<u>(Won)2,499</u>	<u>(Won)2,207</u>

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

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes that qualified for hedge accounting under U.S. GAAP, as of December 31, 2008, 2009 and 2010:

	As of December 31,					
	2008		2009		2010	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(in billions of Won)					
Foreign exchange derivatives ⁽¹⁾	(Won)—	(Won)—	(Won)107	(Won)165	(Won) 28	(Won)26
Interest rate derivatives ⁽¹⁾	56	83	125	119	69	61
Others ⁽¹⁾	—	—	39	33	11	11
Total	<u>(Won) 56⁽²⁾</u>	<u>(Won) 83⁽²⁾</u>	<u>(Won)271⁽³⁾</u>	<u>(Won)317⁽³⁾</u>	<u>(Won)108⁽⁴⁾</u>	<u>(Won)98⁽⁴⁾</u>

⁽¹⁾ Includes the unrealized gains and losses of the underlying hedged items.

⁽²⁾ Includes losses related to hedge ineffectiveness of (Won)27,173 million as of December 31, 2008.

⁽³⁾ Includes losses related to hedge ineffectiveness of (Won)45,920 million as of December 31, 2009.

⁽⁴⁾ Includes gains related to hedge ineffectiveness of (Won)9,913 million as of December 31, 2010.

Asset Securitization Transactions

We are active in the Korean asset-backed securities market. Based on our diverse experience with respect to product development and management capabilities relating to asset securitization, we offer customers a wide range of financial products and participate in various asset securitization transactions, including through our subsidiary KB Investment & Securities, to reinforce our position as a leading financial services provider with respect to the asset securitization market. We were involved in asset securitization transactions with an initial aggregate issue amount of (Won)1,479 billion in 2008, (Won)5,271 billion in 2009 and (Won)1,858 billion in 2010, of which (Won)1,425 billion, (Won)5,159 billion and (Won)1,858 billion, respectively, were public offerings of asset-backed securities. Most of these securities were sold to institutional investors through Korean securities houses.

Call Loans

We make call loans and borrow call money in the short-term money market. Call loans are defined as short-term lending among banks and financial institutions either in Won or in foreign currencies with maturities of 90

days or less. Typically, call loans have maturities of one day. As of December 31, 2010, we had made call loans of (Won)920 billion and borrowed call money of (Won)605 billion, compared to (Won)446 billion and (Won)1,365 billion, respectively, as of December 31, 2009.

Investment Banking

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. The main focus of our investment banking operations is project finance and financial advisory services. Our principal investment banking services include:

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

In 2010, under Korean GAAP, we generated investment banking revenue of (Won)197 billion, consisting of (Won)92 billion of interest income and (Won)105 billion of fee income.

In March 2008, we acquired 95.8% of the issued and outstanding common stock of Hannuri Investment & Securities Co., Ltd. for (Won)266.3 billion, which was renamed KB Investment & Securities Co., Ltd. and became our subsidiary. We believe that the acquisition of KB Investment & Securities has provided us with opportunities to leverage our existing base of small- and medium-sized enterprise and large corporate customers to cross-sell investment banking services, particularly under our financial holding company structure, and we will seek to increase our fee income and diversify our investment banking operations by continuing to take advantage of such opportunities.

International Banking

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

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

	As of December 31,		
	2008	2009 (in millions of US\$)	2010
Total foreign currency assets	US\$12,301	US\$10,326	US\$8,831
Foreign currency borrowings:			
Long-term borrowings	4,825	3,842	3,392
Short-term borrowings	4,763	3,418	3,189
Secured borrowings	—	1,424	1,362
Total borrowings	<u>US\$ 9,588</u>	<u>US\$ 8,684</u>	<u>US\$7,943</u>

The table below sets forth our overseas subsidiaries, branches and representative offices currently in operation as of December 31, 2010:

<u>Business Unit</u> ⁽¹⁾	<u>Location</u>
Subsidiaries	
Kookmin Bank Hong Kong Ltd.	Hong Kong
Kookmin Bank International Ltd.	United Kingdom
Kookmin Bank Cambodia PLC	Cambodia
Branches	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, Harbin Branch	China
Kookmin Bank, Guangzhou Branch	China
Kookmin Bank, Suzhou Branch	China
Representative Offices	
Kookmin Bank, Ho Chi Minh Representative Office	Vietnam
Kookmin Bank, Kyiv Representative Office	Ukraine

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

Our overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of our headquarters.

In March 2008, we entered into agreements to acquire shares of JSC Bank CenterCredit, a Kazakhstan bank, and acquired an initial equity stake of 29,972,840 common shares (equal to 23.0% of the then-outstanding voting shares) for approximately (Won)528 billion in August 2008. Pursuant to the terms of such agreements, we acquired an aggregate of 14,163,836 additional common shares of JSC Bank CenterCredit in November and December 2008. In addition, in September 2009, we entered into agreements with International Finance Corporation and certain shareholders of JSC Bank CenterCredit pursuant to which we acquired 3,886,574 additional common shares and 36,561,465 non-voting convertible preferred shares of JSC Bank CenterCredit in January and February 2010. As of March 31, 2011, we held 29.6% of the outstanding common shares of JSC Bank CenterCredit.

In May 2009, we acquired 132,600 common shares of Khmer Union Bank, a Cambodian bank, for approximately (Won)10 billion. As a result, we acquired 51% of the voting rights in Khmer Union Bank, which was renamed Kookmin Bank Cambodia PLC. In December 2010, we acquired an additional 37,602 common shares of Kookmin Bank Cambodia PLC. As of March 31, 2011, we held 53.2% of the outstanding common shares of Kookmin Bank Cambodia PLC.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

We act as a trustee for 59 financial investment companies with a collective investment license, which invest in investment assets using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian for 138 financial institutions and as fund administrator for 57 financial institutions with respect to various investments, as well as acting as settlement agent in connection with such services. We receive a fee for acting in these capacities and generally perform the following functions:

- holding assets for the benefit of the investment trusts or institutional investors;
- receiving and making payments in respect of such investments;
- acting as settlement agent in respect of such investments on behalf of the investment trust or institutional investors, in the domestic and overseas markets;

- providing reports on assets held in custody;
- providing certain foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

For the year ended December 31, 2010, our fee income from our trustee and custodian services was (Won)26 billion and revenues collected as a result of administration of the underlying investments were (Won)7 billion.

Other Businesses

Trust Account Management Services

Money Trust Management Services

We provide trust account management services for unspecified money trusts, which are trusts the assets of which we generally have broad discretion in investing. We receive fees for our trust account management services consisting of basic fees that are based upon a percentage of the net asset value of the assets under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2010, our basic fees ranged from 0.1% to 2.0% of total assets under management depending on the type of trust account. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 20 types of money trusts. The money trusts we manage are generally trusts with a fixed maturity. Approximately 15% of our money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of our trust accounts are segregated from our banking account assets and are not available to satisfy the claims of any of our potential creditors. We are, however, permitted to deposit surplus funds generated by trust assets into our banking accounts.

As of December 31, 2010, the total balance of our money trusts (under Korean GAAP) was (Won)13,525 billion. As for unspecified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we consolidate money trusts for which we guaranteed both the principal and a fixed rate of interest. Under Korean GAAP, we consolidate money trusts for which we guaranteed the principal amount invested as well as those for which we guaranteed both the principal and a fixed rate of interest.

	As of December 31,		
	2008	2009	2010
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 0.2	(Won) 0.2	(Won) 0.2
Principal guaranteed trusts	3,315	2,869	2,954
Performance trusts ⁽¹⁾	6,372	8,170	10,571
Total	<u>(Won)9,687</u>	<u>(Won)11,039</u>	<u>(Won)13,525</u>

⁽¹⁾ Trusts which are primarily non-guaranteed.

The balance of our money trusts increased 39.6% between December 31, 2008 and December 31, 2010.

As of December 31, 2010, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2010, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of (Won)9,268 billion, of which (Won)8,503 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2010, under Korean GAAP, our trust accounts had made loans in the principal amount of (Won)239 billion (excluding loans from the trust accounts to our banking accounts of (Won)551 billion), which accounted for 1.7% of our money trust assets. Loans by our money trusts are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2010, substantially all loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment license. On a Korean GAAP basis, as of December 31, 2010, equity securities in our money trust accounts amounted to (Won)765 billion, which accounted for 5.4% of our total money trust assets. Of this amount, (Won)723 billion was from specified money trusts and (Won)42 billion was from unspecified money trusts.

We currently continue to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On a Korean GAAP basis, as of December 31, 2010, the balance of the money trusts for which we guaranteed the principal was (Won) 2,933 billion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. In 2008, 2009 and 2010, we made no payment from our banking accounts to cover shortfalls in our guaranteed trusts. On a Korean GAAP basis, we derived trust fees with regard to trust account management services (including those fees related to property trust management services) of (Won)58 billion in 2008, (Won) 73 billion in 2009 and (Won)105 billion in 2010.

Under the Financial Investment Services and Capital Markets Act, a bank with a trust business license (such as Kookmin Bank) is permitted to offer both specified money trust account products and unspecified money trust account products.

Property Trust Management Services

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

In 2010, our property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. As of December 31, 2010, the aggregate balance of our property trusts increased to (Won)2,646 billion, compared to (Won) 2,217 billion as of December 31, 2009.

The property trusts are not consolidated within our U.S. GAAP financial statements.

Investment Trust Management

Through KB Asset Management, we offer investment trust products to customers and manage the funds invested by them in investment trusts. In September 2008, in connection with the “comprehensive stock transfer” under Korean law pursuant to which we were established, ING Insurance International B.V., which previously held a 20% equity interest in KB Asset Management, transferred all of its shares of KB Asset Management common stock to us and in return received shares of our common stock. Following such stock transfer, KB Asset Management became our wholly-owned subsidiary. As of December 31, 2010, KB Asset Management had (Won)18,067 billion of assets under management.

Management of the National Housing Fund

Until February 2008, we acted as one of the managers of the National Housing Fund. The National Housing Fund is a government fund that provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Fund include providing and managing National Housing Fund loans, issuing National Housing Fund bonds and collecting subscription savings deposits.

In February 2008, the Ministry of Land, Transport and Maritime Affairs (formerly the Ministry of Construction and Transportation) designated several financial institutions to manage the National Housing Fund, but we chose not to participate in the bidding process due to the low fees involved. As a result, we are no longer a designated manager of the National Housing Fund and currently only manage pre-existing Fund accounts. In return for managing such pre-existing Fund accounts, we receive quarterly fund management fees, calculated based on activity levels for the relevant quarter. In 2010, we received total fees of (Won)42 billion for managing the National Housing Fund, compared to (Won)52 billion in 2009.

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

Bancassurance

The Korean government's liberalization of the bancassurance market in Korea has allowed us to offer insurance products of other institutions since September 2003. We currently market a wide range of bancassurance products and hope to develop additional fee-based revenues by expanding our offering of these products.

Currently, our bancassurance business has alliances with 16 life insurance companies (including our subsidiary, KB Life Insurance) and nine non-life insurance companies and offers 58 different products through our branch network. These products are composed of 36 types of life insurance policies such as annuities, savings insurance and variable life insurance, and 22 types of non-life insurance products. In 2010, our commission income from our bancassurance business amounted to (Won)147 billion.

Distribution Channels

Banking Branch Network

As of December 31, 2010, Kookmin Bank operated a network of 1,173 branches and sub-branches in Korea, which was the largest branch network among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 39% of our branches and sub-branches are located in Seoul, and approximately 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2010:

<u>Area</u>	<u>Number of Branches</u>	<u>Percentage</u>
Seoul	455	38.8%
Six largest cities (other than Seoul)	276	23.5
Other	442	37.7
Total	<u>1,173</u>	<u>100.0%</u>

In addition, we have continued to implement the specialization of our branch functions. Of our branch network as of December 31, 2010, we had eight branches that primarily handled large corporate banking.

In order to support our branch network, we have established an extensive network of ATMs, which are located in branches and in unmanned outlets known as “autobanks.” As of December 31, 2010, we had 9,338 ATMs.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs:

	For the Year Ended December 31,		
	2008	2009	2010
Number of transactions (millions)	638	641	611
Fee revenue (in billions of Won)	(Won) 80	(Won) 76	(Won) 76

Other Distribution Channels

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

	For the Year Ended December 31,		
	2008	2009	2010
Internet banking:			
Number of users ⁽¹⁾	8,623,482	9,811,243	10,924,849
Number of transaction (thousands)	1,636,511	1,973,891	3,061,468
Fee revenue (in millions of Won)	(Won) 21,548	(Won) 22,659	(Won) 23,055
Phone banking:			
Number of users ⁽²⁾	3,702,997	4,064,160	4,353,808
Number of transaction (thousands)	314,945	303,086	299,163
Fee revenue (in millions of Won)	(Won) 11,299	(Won) 11,503	(Won) 11,605

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

⁽²⁾ Number of users is defined as the total cumulative number of persons who have registered through our branch offices to use our phone banking services.

Internet Banking

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

- basic banking services, including fund transfers, balance and transaction inquiries, credit card transaction inquiries, pre-set automatic transfers, product inquiries and on-line bill payments;
- processing of loan applications, which allows us to quickly process and approve on-line loan applications; and
- electronic certification services, which permit our Internet banking service users to authenticate transactions on a confidential basis through digital signatures.

Phone Banking

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

- advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;
- allow our customers to conduct transactions with respect to their accounts, such as transfers or payments, opening or closing accounts, processing loans through automated systems and conducting credit card transactions;
- conduct telemarketing to our customers or potential customers to advertise products or services through phone, fax or text messaging; and
- provide automated banking services, mobile services or other services relating to affinity programs.

Mobile Banking

Mobile banking services allow customers to use mobile phones and devices to make inter-account transfers and balance and other transaction inquiries. There are currently three mobile phone service providers in Korea, SK Telecom, Korea Telecom and LG Telecom, and we provide our services in association with all three. Our mobile banking services currently include:

- basic banking services, including fund transfers and balance and transaction inquiries; and
- mobile stock trading, through which mobile banking customers can use their mobile phone to trade stocks.

Other Channels

We provide cash management services, which include automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2010, we provided cash management services to over 1,557 large corporations and small- and medium-sized enterprises.

Competition

We compete principally with other financial institutions in Korea, including other financial holding companies and nationwide commercial banks, as well as regional banks, development banks, specialized banks and branches of foreign banks operating in Korea and installment finance corporations for mortgage loan products. We also compete for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations), life insurance companies and financial investment companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in our traditional core businesses, retail banking, small- and medium-sized enterprise banking and credit card lending, contributing to some extent to the asset quality deterioration in retail and small- and medium-sized loans. As a result, our margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and financial institutions in Korea. We expect that competition within the Korean financial industry may

intensify as a result of the Financial Investment Services and Capital Markets Act, which became effective in February 2009. See “Item 3D. Risk Factors—Risks relating to government regulation and policy—The Financial Investment Services and Capital Markets Act may intensify competition in the Korean financial industry.” As the reform of the financial sector continues, foreign financial institutions, some with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

In addition, the Korean financial industry is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last five years, including the establishment of financial holding companies, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to seven banks and six financial holding companies as of December 31, 2010. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, Standard Chartered Bank’s acquisition of Korea First Bank in April 2005, Chohung Bank’s merger with Shinhan Bank in April 2006 and Hana Financial Group’s agreement in November 2010 to acquire a controlling interest in Korea Exchange Bank from the Lone Star funds. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank and to dispose of or reduce its controlling interest in Woori Finance Holdings Co., Ltd. (the financial holding company of Woori Bank). Other financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. We intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers or acquisitions.

For additional information, you should read the section entitled “Item 3D. Risk Factors—Risks relating to competition.”

Information Technology

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

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

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

In 2010, we spent approximately (Won)412 billion for our IT systems, including expenses related to the implementation of our next-generation core banking system, Enterprise Data Warehouse system and other new systems. As of December 31, 2010, we employed a total of 793 full-time employees in our IT operations.

Assets and Liabilities

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities.

Loan Portfolio

As of December 31, 2010, our total loan portfolio was (Won)196,496 billion compared to (Won)196,225 billion at December 31, 2009. As of December 31, 2010, 95.5% of our total loans were Won-denominated loans.

Loan Types

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

	As of December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won)				
Domestic:					
Corporate					
Commercial and industrial ⁽¹⁾	(Won) 48,183	(Won) 60,945	(Won) 75,140	(Won) 74,611	(Won) 74,608
Construction	6,504	8,843	10,052	8,097	6,422
Other corporate	1,409	1,797	2,951	2,178	2,350
Retail					
Mortgage and home equity	63,982	65,819	69,924	70,678	70,443
Other consumer	21,589	23,020	27,592	26,949	27,790
Credit cards	8,955	10,429	11,523	11,368	12,395
Total domestic	<u>150,622</u>	<u>170,853</u>	<u>197,182</u>	<u>193,881</u>	<u>194,008</u>
Foreign:	<u>781</u>	<u>1,336</u>	<u>2,455</u>	<u>2,344</u>	<u>2,488</u>
Total gross loans	<u>(Won)151,403</u>	<u>(Won)172,189</u>	<u>(Won)199,637</u>	<u>(Won)196,225</u>	<u>(Won)196,496</u>

⁽¹⁾ Commercial and industrial loans include (Won)400 billion, (Won)314 billion, (Won)19 billion, (Won)29 billion and (Won)54 billion, of loans to the Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

Loan Concentrations

On a consolidated basis, our exposure to any single borrower or any single *chaebol* is limited by law to 20% and 25%, respectively, of our “net aggregate equity capital,” as defined under the Enforcement Decree of the Financial Holding Company Act. See “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Financial Exposure to Any Individual Customer and Major Shareholder.” In addition, Kookmin Bank’s exposure to any single borrower or any single *chaebol* is limited by the Bank Act to 20% and 25%, respectively, of its total Tier I and Tier II capital.

20 Largest Exposures by Borrower

As of December 31, 2010, our 20 largest exposures totaled (Won)20,618 billion and accounted for 8.3% of our total exposures. The following table sets forth, as of December 31, 2010, our total exposures to these top 20 borrowers or issuers:

Company	Loans				Guarantees and Acceptances	Total Exposures	Amounts Classified As Impaired Loans
	Won Currency	Foreign Currency	Equity Securities	Debt Securities (in billions of Won)			
Bank of Korea	(Won)—	(Won)—	(Won)—	(Won) 3,195	(Won) —	(Won) 3,195	(Won)—
Korea Housing Corporation	—	—	—	2,274	—	2,274	—
Korea Land & Housing Corporation	—	—	—	1,431	—	1,431	—
Samsung Heavy Industries	50	—	—	5	1,279	1,334	—
Hyundai Heavy Industries	—	—	1	10	1,217	1,228	—
Korea Deposit Insurance Corporation	—	—	—	1,218	—	1,218	—
Woori Bank	70	75	—	876	—	1,021	—
Daewoo Shipbuilding & Marine Engineering	—	—	—	—	933	933	—
Shinhan Bank	—	34	—	758	—	792	—
Small & Medium Business Corporation	—	—	—	749	—	749	—
Korea Electric Power Corporation	—	—	6	730	—	736	—
Korea Gas Corporation	—	—	—	716	—	716	—
The Korea Development Bank	—	29	—	657	—	686	—
NongHyup	—	—	—	653	—	653	—
POSCO	—	—	608	33	—	641	—
Korea Express Way Corporation	—	—	6	613	—	619	—
Hyundai Steel Company	386	—	—	21	208	615	—
Shinhan Financial Group	—	—	—	606	—	606	—
Hana Bank	56	—	—	544	—	600	—
Industrial Bank of Korea	—	31	—	540	—	571	—
Total	(Won)562	(Won)169	(Won)621	(Won)15,629	(Won)3,637	(Won)20,618	(Won)—

As of December 31, 2010, five of these top 20 borrowers or issuers were companies belonging to the 37 largest *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures.

Exposure to Chaebols

As of December 31, 2010, 7.4% of our total exposure was to the 37 largest *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures. The following table shows, as of December 31, 2010, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans					Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency	Equity Securities	Debt Securities				
Hyundai Motors ⁽¹⁾	(Won)1,073	(Won) 602	(Won)256	(Won)178	(Won) 413	(Won) 2,522	(Won)—	
Samsung ⁽²⁾	534	259	3	168	1,406	2,370	—	
Hyundai Heavy Industries ⁽³⁾	5	43	1	44	1,231	1,324	—	
LG ⁽⁴⁾	552	660	10	75	24	1,321	—	
POSCO ⁽⁵⁾	107	43	607	53	344	1,154	—	
SK ⁽⁶⁾	323	236	1	128	329	1,017	—	
Daewoo Shipbuilding & Marine Engineering ⁽⁷⁾	62	—	—	—	943	1,005	—	
SPP ⁽⁸⁾	103	1	—	—	580	684	—	
Hanwha ⁽⁹⁾	592	26	—	17	46	681	—	
Lotte ⁽¹⁰⁾	302	1	—	225	58	586	—	
Total	(Won)3,653	(Won)1,871	(Won)878	(Won)888	(Won)5,374	(Won)12,664	(Won)—	

- (1) Includes principally Hyundai Steel Company, Kia Motors Corporation and Hyundai Capital Services.
(2) Includes principally Samsung Heavy Industries, Samsung Electro-Mechanics and Samsung Electronics.
(3) Includes principally Hyundai Heavy Industries, Hyundai Corporation and Hyundai Oil Refinery.
(4) Includes principally LG Electronics, LG Display and LG Petrochemical.
(5) Includes principally POSCO, Daewoo International Corporation and POSCO Power Corporation.
(6) Includes principally SK Innovation, SK Holdings and SK Networks Company.
(7) Includes principally Daewoo Shipbuilding & Marine Engineering, Shinhan Machinery and DSEC.
(8) Includes principally SPP Plant & Shipbuilding, SPP Shipbuilding and SPP Machine Tech.
(9) Includes principally Hanwha Engineering & Construction Corp., Hanwha Corp. and Hanwha Galleria.
(10) Includes principally Lotte Card, Lotte Liquor BG and Lotte Capital.

Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2010:

Industry	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won)	
Manufacturing	(Won)26,588	31.0%
Real estate	15,826	18.4
Retail and wholesale	14,300	16.7
Hotel, leisure or transportation	10,277	12.0
Construction	6,494	7.6
Finance and insurance	2,242	2.6
Other	10,075	11.7
Total	(Won)85,802	100.0%

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2010:

	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)10 million	(Won) 308	0.2%
Over (Won)10 million to (Won)50 million	4,236	2.1
Over (Won)50 million to (Won)100 million	4,357	2.2
Over (Won)100 million to (Won)500 million	20,173	10.3
Over (Won)500 million to (Won)1 billion	10,155	5.2
Over (Won)1 billion to (Won)5 billion	16,638	8.5
Over (Won)5 billion to (Won)10 billion	3,770	1.9
Over (Won)10 billion to (Won)50 billion	9,047	4.6
Over (Won)50 billion to (Won)100 billion	2,761	1.4
Over (Won)100 billion	3,163	1.6
Sub-total	<u>74,608</u>	<u>38.0</u>
Construction loans		
Up to (Won)10 million	(Won) 22	0.0%
Over (Won)10 million to (Won)50 million	262	0.1
Over (Won)50 million to (Won)100 million	293	0.1
Over (Won)100 million to (Won)500 million	1,302	0.7
Over (Won)500 million to (Won)1 billion	572	0.3
Over (Won)1 billion to (Won)5 billion	994	0.5
Over (Won)5 billion to (Won)10 billion	398	0.2
Over (Won)10 billion to (Won)50 billion	1,778	0.9
Over (Won)50 billion to (Won)100 billion	587	0.3
Over (Won)100 billion	214	0.1
Sub-total	<u>6,422</u>	<u>3.2</u>
Other corporate loans		
Up to (Won)10 million	(Won) 5	0.0%
Over (Won)10 million to (Won)50 million	97	0.0
Over (Won)50 million to (Won)100 million	163	0.1
Over (Won)100 million to (Won)500 million	643	0.3
Over (Won)500 million to (Won)1 billion	306	0.2
Over (Won)1 billion to (Won)5 billion	643	0.3
Over (Won)5 billion to (Won)10 billion	209	0.1
Over (Won)10 billion to (Won)50 billion	284	0.2
Sub-total	<u>2,350</u>	<u>1.2</u>
Credit cards		
Up to (Won)10 million	(Won)10,775	5.4%
Over (Won)10 million to (Won)50 million	577	0.3
Over (Won)50 million to (Won)100 million	24	0.0
Over (Won)100 million to (Won)500 million	117	0.1
Over (Won)500 million to (Won)1 billion	121	0.1
Over (Won)1 billion to (Won)5 billion	326	0.2
Over (Won)5 billion to (Won)10 billion	46	0.0
Over (Won)10 billion to (Won)50 billion	259	0.1
Over (Won)50 billion to (Won)100 billion	150	0.1
Over (Won)100 billion	—	—
Sub-total	<u>12,395</u>	<u>6.3</u>

	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won)	
Mortgage and home equity loans		
Up to (Won)10 million	(Won) 1,315	0.7%
Over (Won)10 million to (Won)50 million	17,211	8.8
Over (Won)50 million to (Won)100 million	17,859	9.1
Over (Won)100 million to (Won)500 million	32,462	16.5
Over (Won)500 million to (Won)1 billion	1,507	0.8
Over (Won)1 billion to (Won)5 billion	89	0.0
Over (Won)5 billion to (Won)10 billion	—	—
Over (Won)10 billion to (Won)50 billion	—	—
Sub-total	<u>70,443</u>	<u>35.9</u>
Other consumer loans		
Up to (Won)10 million	(Won) 6,611	3.4%
Over (Won)10 million to (Won)50 million	11,590	5.9
Over (Won)50 million to (Won)100 million	2,650	1.3
Over (Won)100 million to (Won)500 million	5,575	2.8
Over (Won)500 million to (Won)1 billion	919	0.5
Over (Won)1 billion to (Won)5 billion	425	0.2
Over (Won)5 billion to (Won)10 billion	20	0.0
Sub-total	<u>27,790</u>	<u>14.1</u>
Foreign		
Up to (Won)10 million	(Won) —	— %
Over (Won)10 million to (Won)50 million	3	0.0
Over (Won)50 million to (Won)100 million	7	0.0
Over (Won)100 million to (Won)500 million	80	0.0
Over (Won)500 million to (Won)1 billion	90	0.1
Over (Won)1 billion to (Won)5 billion	941	0.5
Over (Won)5 billion to (Won)10 billion	217	0.1
Over (Won)10 billion to (Won)50 billion	983	0.5
Over (Won)50 billion to (Won)100 billion	167	0.1
Over (Won)100 billion	—	—
Sub-total	<u>2,488</u>	<u>1.3</u>
Total	<u>(Won)196,496</u>	<u>100.0%</u>

Maturity Analysis

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

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2010. The amounts disclosed are before deduction of allowance for loan losses:

	<u>1 Year or Less</u>	<u>Over 1 year But Not More Than 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	(in billions of Won)			
Domestic:				
Corporate				
Commercial and industrial	(Won) 55,761	(Won)13,740	(Won) 5,107	(Won) 74,608
Construction	5,071	1,316	35	6,422
Other corporate	2,350	—	—	2,350
Total corporate	63,182	15,056	5,142	83,380
Retail				
Mortgage and home equity	11,320	8,395	50,728	70,443
Other consumer	20,465	5,068	2,257	27,790
Total retail	31,785	13,463	52,985	98,233
Credit cards	10,578	1,809	8	12,395
Total domestic	105,545	30,328	58,135	194,008
Foreign:	1,081	832	575	2,488
Total gross loans	<u>(Won)106,626</u>	<u>(Won)31,160</u>	<u>(Won)58,710</u>	<u>(Won)196,496</u>

Interest Rate Sensitivity

The following table shows, as of December 31, 2010, the total amount of loans due after one year, which have fixed interest rates and variable or adjustable interest rates:

	<u>As of December 31, 2010</u>
	(in billions of Won)
Fixed rate ⁽¹⁾	(Won) 2,927
Variable or adjustable rates ⁽²⁾	86,943
Total gross loans	<u>(Won) 89,870</u>

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

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

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

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which we, together with the borrower and other creditors, restructure a borrower’s credit terms. Previously, workouts were regulated under the Corporate Restructuring Promotion Act, which was enacted in 2007 and expired on December 31, 2010. In April 2011, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective on May 19, 2011. Workouts that had been initiated under the Corporate Restructuring Promotion Act are also governed by the New Corporate Restructuring Promotion Act effective from May 19, 2011. Under the New Corporate Restructuring Promotion Act, which is similar to the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower are required to

participate in a creditors' committee which is authorized to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganization plan prepared by the borrower. Any decision of the creditors' committee requires the approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding not less than 75% of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all the creditor financial institutions of the borrower. Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the coordination committee may request a court to change such decision. The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2013.

Currently, all of our workout loans are managed by Kookmin Bank's Corporate Restructuring Department. Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

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

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2010, (Won)1,334 billion or 0.6% of our total loans and debt securities were in workout, restructuring or rehabilitation. This included (Won)793 billion of loans to and debt securities of large corporate borrowers and (Won)541 billion of loans to and debt securities of small- and medium-sized enterprises.

The following table shows, as of December 31, 2010, our ten largest exposures that were in workout, restructuring or rehabilitation:

Company	Loans					Guarantees And Acceptances	Total Exposures	Amounts Classified As Impaired Loans
	Won Currency	Foreign Currency	Equity Securities	Debt Securities	(in billions of Won)			
Sekwang Heavy Industries Co., Ltd.	(Won) 1	(Won)—	(Won)—	(Won)—	(Won)321	(Won) 322	(Won) 1	
Kumho Industrial Co., Ltd.	139	—	68	—	8	215	139	
SLS Shipbuilding Co., Ltd.	138	—	—	—	45	183	138	
Kumho Tire Co., Inc.	34	36	38	—	5	113	70	
Joongang Construction Co., Ltd.	82	—	—	—	—	82	82	
Hanil Engineering & Construction Co., Ltd.	58	—	—	—	23	81	58	
Dongmoon Construction Co., Ltd.	61	—	—	—	—	61	61	
Samsun Logix Corporation	—	38	—	—	6	44	38	
Samho International Co., Ltd.	41	—	—	—	—	41	41	
Pantech Co., Ltd.	29	7	3	—	1	40	36	
Total	<u>(Won)583</u>	<u>(Won) 81</u>	<u>(Won)109</u>	<u>(Won)—</u>	<u>(Won)409</u>	<u>(Won)1,182</u>	<u>(Won)664</u>	

Provisioning Policy

We base our provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Services Commission:

<u>Loan classification</u>	<u>Loan Characteristics</u>
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of non-repayment.
Substandard	Loans to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

We consider the following corporate loans to be impaired loans:

- loans classified as “substandard” or below according to the Financial Services Commission’s asset classification guidelines;
- loans that are over 30 days past due;
- loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and
- loans that are “troubled debt restructurings.”

We also consider consumer and credit card loans that are “troubled debt restructurings” to be impaired loans.

We establish loan loss allowances for corporate loans based on whether a particular loan is identified as impaired or not. Loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) we expect to receive on such loans. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral-dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that are considered impaired, the fair value is determined by reference to observable market prices, when available. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information.

The following table sets out, at the dates indicated, the percentage of our impaired corporate loans covered by loan loss allowances, based on their loan classification:

	<u>As of December 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u> (percentages)	<u>2009</u>	<u>2010</u>
Normal	4.9%	11.6%	15.0%	8.0%	6.2%
Precautionary	41.0	44.8	22.4	47.5	35.6
Substandard	21.2	24.0	44.6	36.5	46.3
Doubtful	58.7	66.2	70.9	70.8	77.6
Estimated loss	93.3	93.1	91.1	85.5	92.4

For consumer loans, we establish loan loss allowances based on historical performance, previous loan loss history and charge-off information. Additional factors that management considers when establishing reserves for homogeneous pools of consumer loans include, but are not limited to, economic events, delinquencies and changes in underwriting and credit monitoring policies.

The actual amount of incurred credit losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred credit losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the use of models to estimate incurred credit losses in those portfolios.

We regularly evaluate the adequacy of the overall allowance for credit losses and we believe that the allowance for credit losses reflects our best estimate of probable credit losses as of each balance sheet date.

Loan Aging Schedule

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

<u>As of December 31,</u>	<u>Normal Amount</u>	<u>%</u>	<u>Amount Past Due 1-3 Months</u>	<u>%</u>	<u>Amount Past Due 3-6 Months</u>	<u>%</u>	<u>Amount Past Due more Than 6 Months</u>	<u>%</u>	<u>Total Amount</u>
				(in billions of Won, except percentages)					
2008	(Won)197,870	99.1%	(Won)699	0.4%	(Won)413	0.2%	(Won) 655	0.3%	(Won)199,637
2009	194,371	99.1	488	0.2	315	0.2	1,051	0.5	196,225
2010	194,459	99.0	720	0.4	598	0.2	719	0.4	196,496

Non-Accrual Loans and Past Due Accruing Loans

We generally place loans on non-accrual status when payments of interest and/or principal become past due by one day. We no longer recognize interest on these loans from the date the loan is placed on non-accrual status. We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. We generally do not recognize interest income on non-accrual loans unless collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2010, we would have recorded gross interest income of (Won)307 billion compared to (Won)278 billion for the year ended December 31, 2009 and (Won)413 billion for the year ended December 31, 2008 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2008, 2009 and 2010 was (Won)338 billion, (Won)193 billion and (Won)197 billion, respectively.

The category “accruing but past due one day” includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Corporation or certain financial institutions.

The following table shows, at the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans which were past due one day or more:

	As of December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won)				
Loans accounted for on a non-accrual basis					
Corporate	(Won)1,875	(Won)1,319	(Won)1,986	(Won)2,243	(Won)2,712
Consumer	4,416	3,557	3,669	2,124	2,327
Sub-total	<u>6,291</u>	<u>4,876</u>	<u>5,655</u>	<u>4,367</u>	<u>5,039</u>
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate ⁽¹⁾	60	51	313	125	83
Consumer	688	281	226	124	202
Sub-total	<u>748</u>	<u>332</u>	<u>539</u>	<u>249</u>	<u>285</u>
Total	<u>(Won)7,039</u>	<u>(Won)5,208</u>	<u>(Won)6,194</u>	<u>(Won)4,616</u>	<u>(Won)5,324</u>

⁽¹⁾ Includes accruing corporate loans which are contractually past due 90 days or more in the amount of (Won)5 billion, (Won)4 billion, (Won)20 billion, (Won)40 billion and (Won)7 billion as of December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are “troubled debt restructurings” as defined under U.S. GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won)				
Loans classified as “troubled debt restructurings”	(Won)446	(Won)271	(Won)187	(Won)116	(Won)489

For 2010, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)45 billion, out of which (Won)35 billion was reflected as interest income during 2010.

Potential Problem Loans

As of December 31, 2010, we had (Won)3,043 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future.

Other Problematic Interest Earning Assets

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2006, 2007, 2008, 2009 and 2010, we did not have any debt securities on which interest was past due.

Non-Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. These loans are generally classified as “substandard” or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see “— Provisioning Policy” above.

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

	As of December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won, except percentages)				
Total non-performing loans	(Won)2,143	(Won)1,339	(Won)1,068	(Won)1,365	(Won)1,316
As a percentage of total loans	1.4%	0.8%	0.5%	0.7%	0.7%

The above table does not reflect the amount of loans classified as substandard or below that we or any of our predecessor operations sold to Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry and other parties.

We have also issued securities backed by non-performing loans and collateralized bond obligations. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings.

Analysis of Non-Performing Loans

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

	As of December 31,									
	2006		2007		2008		2009		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic:										
Corporate										
Commercial and industrial	(Won)1,335	62.3%	(Won) 822	61.4%	(Won) 556	52.1%	(Won) 899	65.8%	(Won) 766	58.2%
Construction	149	7.0	88	6.6	161	15.1	125	9.2	139	10.6
Lease financing	—	—	—	—	—	—	—	—	—	—
Other corporate	3	0.1	3	0.2	1	0.1	2	0.2	2	0.1
Total corporate	1,487	69.4	913	68.2	718	67.3	1,026	75.2	907	68.9
Retail										
Mortgage and home equity	484	22.6	297	22.2	216	20.2	211	15.4	250	19.0
Other consumer	145	6.8	101	7.5	86	8.0	79	5.8	139	10.6
Total retail	629	29.4	398	29.7	302	28.2	290	21.2	389	29.6
Credit cards	26	1.2	27	2.0	29	2.7	23	1.7	15	1.1
Total domestic	2,142	100	1,338	99.9	1,049	98.2	1,339	98.1	1,311	99.6
Foreign:										
Total non-performing loans	(Won)2,143	100.0%	(Won)1,339	100.0%	(Won)1,068	100.0%	(Won)1,365	100.0%	(Won)1,316	100.0%

Top 20 Non-Performing Loans

As of December 31, 2010, our 20 largest non-performing loans accounted for 34.2% of our total non-performing loan portfolio. The following table shows, as of December 31, 2010, certain information regarding our 20 largest non-performing loans:

	<u>Industry</u>	<u>Gross Principal Outstanding</u> (in billions of Won)	<u>Allowance For Loan Losses</u>
Borrower A	Manufacturing	(Won) 138	(Won) 83
Borrower B	Manufacturing	29	5
Borrower C	Real estate	23	2
Borrower D	Real estate	23	13
Borrower E	Leisure	21	8
Borrower F	Real estate	21	10
Borrower G	Real estate	19	10
Borrower H	Real estate	19	10
Borrower I	Real estate	18	10
Borrower J	Real estate	17	10
Borrower K	Real estate	16	2
Borrower L	Construction	16	9
Borrower M	Real estate	15	15
Borrower N	Real estate	14	7
Borrower O	Construction	13	0
Borrower P	Manufacturing	12	11
Borrower Q	Manufacturing	10	0
Borrower R	Construction	10	7
Borrower S	Real estate	8	—
Borrower T	Other	8	4
Total		<u>(Won) 450</u>	<u>(Won) 216</u>

Most of our loans to companies in workout or restructuring were not classified as non-performing as of December 31, 2010 because such loans had been rescheduled and payments on such rescheduled loans were not past due by more than 90 days.

Non-Performing Loan Strategy

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

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

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

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

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

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

In addition, we use the services of our wholly-owned loan collection subsidiary, KB Credit Information Co., Ltd., which receives payments from recoveries made on charged-off loans and certain loans that are overdue for over three months (45 days in the case of credit card loans). KB Credit Information has over 590 employees, including legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. The amount recovered was (Won)388 billion in 2008, (Won)426 billion in 2009 and (Won)329 billion in 2010.

Methods for resolving non-performing loans include the following:

- (i) For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:
 - non-performing loans are managed by the operating branches of Kookmin Bank until such loans are charged off;
 - a demand note is dispatched by mail if payment is generally one month past due;
 - calls and visits are made by Kookmin Bank's operating branches to customers encouraging them to make payments;
 - borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans;
 - preparations are made to use judicial means, including foreclosure and auction of the collateral; and
 - for unsecured loans other than credit card loans, the loans are transferred to KB Credit Information for collection.
- (ii) For loans in arrears for more than six months but less than one year:
 - for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced.
- (iii) For loans in arrears for over one year:
 - for individual housing loans, foreclosure and auction proceeding are commenced;
 - in the case of unsecured loans, the loans are treated as loan losses; and
 - charged off loans are given to KB Credit Information for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In addition, credit card loans that are in arrears for over 45 days are transferred to KB Credit Information for collection.

If a loan becomes non-performing, it is managed by an operating branch of Kookmin Bank until such loan is charged off. However, in order to promote speedy recovery on loans subject to foreclosures and litigation, our

policy is to permit the branch responsible for handling these loans to request one of Kookmin Bank's regional head offices for assistance with litigation proceedings and proceedings related to foreclosure and auction of the collateral.

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

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

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

In May 2011, the Financial Supervisory Service entered into a memorandum of understanding with seven banks, including us, regarding the establishment by the end of June 2011 of an entity to acquire approximately (Won)1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. Such entity is expected to be established in the form of a private equity fund, with United Asset Management Corp. as the general partner and several banks, including us, and other investors as the limited partners. The non-performing bank loans are expected to be purchased by the entity at market price and the funds required to purchase such loans are expected to be contributed entirely by the banks that sell such loans to the entity. According to the memorandum of understanding, we will be required to make a capital contribution of (Won)148 billion and extend a loan of (Won)109 billion to the entity.

Allocation of Allowance for Loan Losses

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

	As of December 31,									
	2006		2007		2008		2009		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	(Won)1,444	31.9%	(Won)1,071	35.5%	(Won)1,707	37.7%	(Won)2,165	38.1%	(Won)2,637	38.0%
Construction	179	4.3	175	5.1	674	5.0	457	4.1	893	3.2
Other corporate	12	0.9	14	1.0	26	1.5	25	1.1	22	1.2
Total corporate	1,635	37.1	1,260	41.6	2,407	44.2	2,647	43.3	3,552	42.4
Retail										
Mortgage and home equity	173	42.3	114	38.2	107	35.0	125	36.0	125	35.9
Other consumer	441	14.2	314	13.3	271	13.8	336	13.7	346	14.1
Total retail	614	56.5	428	51.5	378	48.8	461	49.7	471	50.0
Credit cards	205	5.9	165	6.1	213	5.8	202	5.8	166	6.3
Foreign ⁽¹⁾	14	0.5	11	0.8	45	1.2	31	1.2	58	1.3
Total allowance for loan losses	(Won)2,468	100.0%	(Won)1,864	100.0%	(Won)3,043	100.0%	(Won)3,341	100.0%	(Won)4,247	100.0%

⁽¹⁾ Consists primarily of loans to corporations.

Our total allowance for loan losses was (Won)3,043 billion as of December 31, 2008. During 2009, the allowance for loans losses increased by (Won)298 billion, or 9.8%, to (Won)3,341 billion as of December 31, 2009. During 2010, the allowance for loans losses increased by (Won)906 billion, or 27.1%, to (Won)4,247 billion as of December 31, 2010.

Analysis of Allowance for Loan Losses

The following table analyzes our loan loss experience for each of the years indicated:

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(in billions of Won, except percentages)				
Balance at the beginning of the period, before allowance relating to the adoption of new consolidation guidance	(Won) 3,212	(Won) 2,468	(Won) 1,864	(Won) 3,043	(Won) 3,341
Allowance relating to the adoption of new consolidation guidance	—	—	—	—	(43)
Balance at the beginning of the period	3,212	2,468	1,864	3,043	3,298
Amounts charged against income	(195)	109	2,142	2,216	3,238
Allowance relating to loans repurchased	—	1	3	7	22
Gross charge-offs:					
Domestic:					
Corporate					
Commercial and industrial	480	580	703	975	1,601
Construction	55	108	140	460	294
Other corporate	15	4	5	15	4
Retail					
Mortgage and home equity	90	49	63	33	221
Other consumer	394	275	279	329	296
Credit cards	301	331	375	571	401
Foreign:	—	—	—	—	14
Total gross charge-offs	<u>(1,335)</u>	<u>(1,347)</u>	<u>(1,565)</u>	<u>(2,383)</u>	<u>(2,831)</u>
Recoveries:					
Domestic:					
Corporate					
Commercial and industrial	86	98	98	54	113
Construction	6	21	13	10	20
Other corporate	2	1	2	1	—
Retail					
Mortgage and home equity	137	16	32	12	15
Other consumer	198	196	177	125	127
Credit cards	357	301	277	256	245
Foreign:	—	—	—	—	—
Total recoveries	<u>786</u>	<u>633</u>	<u>599</u>	<u>458</u>	<u>520</u>
Net charge-offs	<u>(549)</u>	<u>(714)</u>	<u>(966)</u>	<u>(1,925)</u>	<u>(2,311)</u>
Balance, at the end of the period	<u>(Won) 2,468</u>	<u>(Won) 1,864</u>	<u>(Won) 3,043</u>	<u>(Won) 3,341</u>	<u>(Won) 4,247</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.4%	0.4%	0.5%	1.0%	1.2%

Loan Charge-Offs

Basic Principles

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

Loans To Be Charged Off

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

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

Procedure for Charge-off Approval

In order to charge off corporate loans, an application for a charge-off must be submitted to Kookmin Bank’s Credit Management Department promptly after the corporate loan is classified as estimated loss or deemed uncollectible. The Credit Management Department refers the charge-off application to Kookmin Bank’s Branch Audit Department for their review to ensure compliance with our internal procedures for charge-offs. Then, the Credit Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from our senior management to charge off those loans. With respect to corporate loans under U.S. GAAP, we have followed a similar procedure (although we have not sought approval from the Financial Supervisory Service).

With respect to credit card balances (and, under U.S. GAAP, unsecured retail loans), we follow a different process to determine which credit card balances and unsecured retail loans should be charged off, based on the length of time those loans or balances are past due. We charge off unsecured retail loans deemed to be uncollectible and credit card balances which have been overdue for four payment cycles or more or which have been classified as expected loss. Under U.S. GAAP, we have followed a similar procedure, in addition to charging off any unsecured retail loans or credit card balances which have not been charged off under Korean GAAP but are more than six months overdue.

Treatment of Loans Charged Off

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

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

Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified “credit delinquent person” with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)500 million may participate in an individual work-out program designed to restructure such person’s debt and rehabilitate such person’s credit.

On April 1, 2006, the Law Concerning Credit Restoration and Bankruptcy took effect and replaced the Individual Debtor Rehabilitation Law. Under the Law Concerning Credit Restoration and Bankruptcy, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

On September 2, 2008, to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding (Won)50 million in principal amount in the aggregate (which requirement will be waived for individuals who are “basic living welfare recipients”) for a period of three months or more and (ii) individuals with low credit scores ranging from category 6 to 10 who are in default on loans not exceeding (Won)30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) and the interest rate of which is 30% or more.

In October 2008, the Financial Supervisory Service requested Korean banks, including us, to establish a “fast track” program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective through December 31, 2011, we provide liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us.

In March 2009, the Financial Services Commission requested Korean banks, including us, to establish a “pre-workout program,” including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following extensions by the Korean government, is expected to continue until April 2013. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with total loans of less than (Won)500 million who are in arrears on their payments for more than 30 days but less than 90 days.

Investment Portfolio

Investment Policy

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

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

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Financial Holding Company Act and the Bank Act. Under these regulations, a bank holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company. In addition, Kookmin Bank must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of its total Tier I and Tier II capital amount (less any capital deductions). Generally, Kookmin Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to the Bank Act, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of “major shareholder,” see “—Supervision and Regulation—Principal Regulations Applicable to Banks—Financial Exposure to Any Individual Customer and Major Shareholders”) of that bank in excess of an amount equal to 1% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Liquidity,” “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Shareholdings in Other Companies,” “—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity” and “—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Shareholdings in Other Companies.”

The following table sets out the definitions of the primary categories of investments we hold:

<u>Investment category</u>	<u>Definition</u>
Held-to-maturity securities	Held-to-maturity securities are securities for which we have the positive ability and intent to hold to maturity and are recorded at amortized cost, adjusted for accretion or amortization of discounts and premiums. Effective January 1, 2009, under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining amount of the impairment loss is recognized in accumulated other comprehensive income if (i) we do not intend to sell the security and (ii) we believe that it is more-likely-than-not that we will not be required to sell the security prior to recovery.
Available-for-sale securities	Securities are classified as available-for-sale when we intend to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Available-for-sale securities are reported at fair value with unrealized gains and losses being recorded in accumulated other comprehensive income within stockholders’ equity. Effective January 1, 2009, under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining amount of the impairment loss is recognized in accumulated other comprehensive income if (i) we do not intend to sell the security and (ii) we believe that it is more-likely-than-not that we will not be required to sell the security prior to recovery.
Trading securities	Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized and realized gains and losses being recorded immediately in our income statement.

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

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

Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated:

	As of December 31,					
	2008		2009		2010	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
	(in billions of Won)					
Available-for-sale securities:						
Equity securities	(Won) 404	(Won) 404	(Won) 1,135	(Won) 1,135	(Won) 1,327	(Won) 1,327
Debt securities						
Korean treasury securities and government agency securities	6,979	6,979	7,892	7,892	8,213	8,213
Debt securities issued by financial institutions	6,160	6,160	6,405	6,405	6,000	6,000
Corporate debt securities	1,117	1,117	1,281	1,281	1,285	1,285
Asset-backed securities	146	146	1,998	1,998	1,811	1,811
Total available-for-sale	<u>14,806</u>	<u>14,806</u>	<u>18,711</u>	<u>18,711</u>	<u>18,636</u>	<u>18,636</u>
Held-to-maturity securities:						
Debt securities						
Korean treasury securities and government agency securities	9,139	9,368	8,992	9,064	10,525	10,851
Debt securities issued by financial institutions	2,980	3,009	2,995	3,040	1,585	1,637
Corporate debt securities	249	251	380	382	573	587
Asset-backed securities	232	237	243	246	393	398
Total held-to-maturity	<u>12,600</u>	<u>12,865</u>	<u>12,610</u>	<u>12,732</u>	<u>13,076</u>	<u>13,473</u>
Trading securities:						
Equity securities	217	217	254	254	176	176
Debt securities						
Korean treasury securities and government agency securities	1,780	1,780	1,359	1,359	911	911
Debt securities issued by financial institutions	2,693	2,693	2,699	2,699	2,285	2,285
Corporate debt securities	99	99	31	31	151	151
Asset-backed securities	462	462	117	117	172	172
Total trading	<u>5,251</u>	<u>5,251</u>	<u>4,460</u>	<u>4,460</u>	<u>3,695</u>	<u>3,695</u>
Total securities	<u>(Won)32,657</u>	<u>(Won)32,922</u>	<u>(Won)35,781</u>	<u>(Won)35,903</u>	<u>(Won)35,407</u>	<u>(Won)35,804</u>

Maturity Analysis

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2010:

	As of December 31, 2010									
	Within 1 Year	Weighted Average Yield ⁽¹⁾	Over 1 But within 5 Years	Weighted Average Yield ⁽¹⁾	Over 5 But within 10 Years	Weighted Average Yield ⁽¹⁾	Over 10 Years	Weighted Average Yield ⁽¹⁾	Total	Weighted Average Yield ⁽¹⁾
(in billions of Won, except percentages)										
Available-for-sale securities:										
Korean treasury securities and government agencies	(Won)2,001	4.86%	(Won)5,755	4.81%	(Won) 414	5.18%	(Won) 43	5.50%	(Won) 8,213	4.84%
Debt securities issued by financial institutions	3,131	4.09%	2,758	4.34%	111	5.54%	—	—	6,000	4.23%
Corporate debt securities	480	5.31%	795	5.21%	10	4.44%	—	—	1,285	5.24%
Asset-backed securities	85	4.66%	183	4.42%	—	—	1,543	3.82%	1,811	3.92%
Total	(Won)5,697	4.47%	(Won)9,491	4.70%	(Won) 535	5.24%	(Won)1,586	3.87%	(Won)17,309	4.56%
Held-to-maturity securities										
Korean treasury securities and government agencies	1,395	4.65%	6,561	4.74%	2,468	5.48%	101	5.53%	10,525	4.91%
Debt securities issued by financial institutions	290	6.28%	1,255	5.51%	40	5.00%	—	—	1,585	5.64%
Corporate debt securities	21	6.37%	382	5.34%	170	4.82%	—	—	573	5.22%
Asset-backed securities	—	—	383	4.82%	10	4.37%	—	—	393	4.81%
Total	(Won)1,706	4.95%	(Won)8,581	4.88%	(Won)2,688	5.43%	(Won) 101	5.53%	(Won)13,076	5.01%
Trading securities:										
Korean treasury securities and government agencies	505	4.05%	350	4.00%	56	4.66%	—	—	911	4.07%
Debt securities issued by financial institutions	1,996	3.26%	289	4.12%	—	—	—	—	2,285	3.37%
Corporate debt securities	41	6.90%	100	5.21%	10	4.89%	—	—	151	5.65%
Asset-backed securities	172	5.36%	—	—	—	—	—	—	172	5.36%
Total	(Won)2,714	3.60%	(Won) 739	4.21%	(Won) 66	4.69%	(Won) —	—	(Won) 3,519	3.74%

⁽¹⁾ The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity securities and the fair value in the case of available-for-sale securities and trading securities).

Concentrations of Risk

As of December 31, 2010, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders' equity at such date, which was (Won)16,997 billion:

	<u>Book Value</u>	<u>Market Value</u>
	(in billions of Won)	
Name of issuer:		
Korean government	(Won)13,096	(Won)13,267
Bank of Korea	3,195	3,195
Korea Housing Finance Corporation	2,274	2,279
Total	<u>(Won)18,565</u>	<u>(Won)18,741</u>

The Bank of Korea and Korea Housing Finance Corporation are controlled by the Korean government.

Funding

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

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 70.9% of total funding as of December 31, 2008, 75.9% of total funding as of December 31, 2009 and 81.0% of total funding as of December 31, 2010.

In addition, we acquire funding by issuing bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and government-affiliated funds. Such borrowings are generally long-term borrowings, with maturities ranging from one year to 29 years.

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated:

	2008		2009		2010	
	<u>Average Balance⁽¹⁾</u>	<u>Average Rate Paid</u>	<u>Average Balance⁽¹⁾</u>	<u>Average Rate Paid</u>	<u>Average Balance⁽¹⁾</u>	<u>Average Rate Paid</u>
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	(Won) 3,076	—	(Won) 2,936	—	(Won) 2,805	—
Interest-bearing	622	2.25%	846	1.18%	789	1.27%
Time deposits:						
Certificates	25,392	6.04	26,423	4.50	10,960	4.03
Other time deposits	77,495	5.36	87,721	4.45	109,032	3.62
Savings deposits	41,761	1.06	46,277	0.49	48,207	0.42
Mutual installment deposits ⁽²⁾	4,985	3.43	3,915	2.99	3,702	3.05
Average total deposits	<u>(Won)153,331</u>	<u>4.12%</u>	<u>(Won)168,118</u>	<u>3.24%</u>	<u>(Won)175,495</u>	<u>2.68%</u>

- (1) Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our other subsidiaries.
- (2) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible for our loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

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

Certificates of Deposit and Other Time Deposits

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million as of December 31, 2010:

	<u>Certificates of Deposit</u>	<u>Other Time Deposits</u>	<u>Mutual Installment Deposits</u>	<u>Total</u>
	(in billions of Won)			
Maturing within three months	(Won)1,944	(Won)27,196	(Won) 304	(Won)29,444
After three but within six months	40	10,248	125	10,413
After six but within 12 months	194	28,210	116	28,520
After 12 months	—	825	146	971
Total	<u>(Won)2,178</u>	<u>(Won)66,479</u>	<u>(Won) 691</u>	<u>(Won)69,348</u>

Long-term debt

The aggregate amount of contractual maturities of all long-term debt at December 31, 2010 was as follows:

	<u>At December 31, 2010</u> (in billions of Won)
Due in 2011	(Won) 10,011
Due in 2012	7,388
Due in 2013	2,075
Due in 2014	4,767
Due in 2015	378
Thereafter	<u>5,467</u>
Gross long-term debt	30,086
Discount	(6)
Total long-term debt, net	<u>(Won) 30,080</u>

Short-term borrowings

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

	As of and for the Year Ended December 31,					
	2008		2009		2010	
	(in billions of Won, except percentages)					
Call money:						
Year-end balance	(Won)	3,444	(Won)	1,365	(Won)	605
Average balance ⁽¹⁾		3,059		3,528		1,810
Maximum balance		3,990		7,541		1,959
Average interest rate ⁽²⁾		3.96%		1.90%		1.38%
Year-end interest rate		0.40-6.62%		0.20-2.10%		0.40-3.20%
Borrowings from the Bank of Korea: ⁽³⁾						
Year-end balance	(Won)	796	(Won)	1,344	(Won)	931
Average balance ⁽¹⁾		570		1,200		982
Maximum balance		796		1,512		1,189
Average interest rate ⁽²⁾		2.98%		1.25%		1.22%
Year-end interest rate		1.75%		1.25%		1.25%
Other short-term borrowings: ⁽⁴⁾						
Year-end balance	(Won)	9,731	(Won)	6,832	(Won)	7,844
Average balance ⁽¹⁾		8,634		8,805		7,271
Maximum balance		9,731		12,142		7,844
Average interest rate ⁽²⁾		4.63%		3.03%		2.79%
Year-end interest rate		0.50-8.23% ⁽⁵⁾		0.22-7.49%		0.45-7.55%

⁽¹⁾ Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our other subsidiaries.

⁽²⁾ Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

⁽³⁾ Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

⁽⁴⁾ Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings and debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by securities totaling (Won)1,100 billion as of December 31, 2010.

⁽⁵⁾ Excludes interest rates of 9.00% and 25.00% on short-term borrowings of (Won)520 million and (Won)460 million, respectively, as of December 31, 2008 by two of our special purpose entities.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Financial Holding Company Act, last amended on June 8, 2010, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Services Commission and the Financial Supervisory Service.

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

Following the instructions and directives of the Financial Services Commission, the Financial Supervisory Service supervises and examines financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets requirements relating to Korean financial holding companies' liquidity and capital adequacy ratios and establishes reporting requirements within the authority delegated under the Financial Services Commission regulations. Financial holding companies must submit quarterly reports to the Financial Supervisory Service discussing business performance, financial status and other matters identified in the Enforcement Decree of the Financial Holding Company Act.

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

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

- financially supporting its direct and indirect subsidiaries;
- raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products;
- supporting the operations of its direct and indirect subsidiaries by providing access to data processing, legal and accounting resources; and
- any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

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

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

Capital Adequacy

The Financial Holding Company Act does not provide for a minimum paid-in capital requirement related to financial holding companies. However, all financial holding companies are required to maintain a specified level of solvency. In addition, with respect to the allocation of net profit earned in a fiscal term, a financial holding company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Beginning on January 1, 2007, a bank holding company, which is a financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated capital adequacy ratio of 8.0%. “Consolidated capital adequacy ratio” is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlements (“BIS”) standards. “Equity capital,” as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

Liquidity

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

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% on a non-consolidated basis;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% on a non-consolidated basis (except that such requirement is not applicable to financial holding companies whose foreign currency liabilities amount is less than 1% of its total assets);
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days as a percentage of total foreign currency assets of not less than 0% on a non-consolidated basis;
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month as a percentage of total foreign currency assets of not less than negative 10% on a non-consolidated basis; and
- make quarterly reports regarding their Won liquidity and foreign currency liquidity to the Financial Supervisory Service.

Financial Exposure to Any Individual Customer and Major Shareholder

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

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

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

less the sum of:

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

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

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

“Major shareholder” is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder), in excess of 10% (or in the case of a bank holding company controlling regional banks only, 15%) in the aggregate of the bank holding company’s total issued and outstanding voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder), more than 4% in the aggregate of the total issued and outstanding voting shares of the bank holding company controlling nationwide banks (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank holding company through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Financial Holding Company Act.

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

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

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

(1) for deposits and installment savings, obligations of the Korean government or the Bank of Korea, obligations guaranteed by the Korean government or the Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or the Bank of Korea, 100% of the credit extended;

(2) for obligations of municipal governments under the Local Autonomy Act, local public enterprise under the Local Public Enterprises Act and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution or for obligations guaranteed by, or secured by the securities issued or guaranteed by, the aforementioned entities pursuant to the relevant regulations, 110% of the credit extended; and

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

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

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

(1) transfers to a special purpose company, or entrustment with a trust company, for an asset-backed securitization transaction under the Asset-Backed Securitization Act;

(2) transfers to a mortgage-backed securities issuance company for a mortgage securitization transaction;

(3) transfers or in-kind contributions to a corporate restructuring vehicle under the Corporate Restructuring Investment Companies Act; and

(4) transfers to a corporate restructuring company under the Industry Promotion Act.

Disclosure of Management Performance

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

(1) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries;

(2) fund-raising by the financial holding company and its direct and indirect subsidiaries and the appropriation of such funds;

(3) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Company Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

(4) occurrence of any non-performing assets or financial incident that may have a material adverse effect, or any other event as prescribed in the applicable regulations.

Restrictions on Shareholdings in Other Companies

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

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

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

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

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

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

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

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

Restriction on Ownership of a Financial Holding Company

Under the Financial Holding Company Act, a financial institution generally may not control a financial holding company. In addition, any single shareholder and persons who have a special relationship with that shareholder may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company that controls nationwide banks or 15% of the total issued and outstanding shares with voting rights of a bank holding company that controls only regional banks, subject to certain exceptions. Among others, the Korean government and the Korea Deposit Insurance Corporation are not subject to this limit. "Non-financial business group companies" (as defined below), however, may not acquire the beneficial ownership of shares of a bank holding company controlling nationwide banks in excess of 9% of that bank holding company's outstanding voting shares unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10%. Any other person (whether a Korean national or a foreign investor) may acquire no more than 10% of total voting shares issued and outstanding of a bank holding company controlling nationwide banks unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of a bank holding company controlling only regional banks), 25% or 33% of the total voting shares issued and outstanding of that bank holding company controlling nationwide banks.

Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank holding company or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank holding company and participate in the management of such company in the manner prescribed in the Enforcement Decree of the Financial Holding Company Act. If non-financial business group companies hold voting stock of a bank holding company in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders' of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of "non-financial business group companies" under the Financial Holding Company Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit.

Furthermore, in the case where a person (including Korean and foreign investors, but excluding certain persons prescribed under the Enforcement Decree of the Financial Holding Company Act) (i) acquires in excess of 4% of the total issued and outstanding voting shares of any financial holding company (other than a financial holding company controlling only regional banks), (ii) becomes the largest shareholder of such financial holding

company in which such person has acquired in excess of 4% of the total issued and outstanding voting shares, or (iii) changes its shareholding in such financial holding company, in which it has acquired in excess of 4% of the total issued and outstanding voting shares, by 1% or more of the total issued and outstanding voting shares of such financial holding company, such person must file a report on such change with the Financial Services Commission within five days thereafter.

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

(1) any same shareholder group where the aggregate net assets of all non-financial business companies belonging to that group equals or exceeds 25% of the aggregate net assets of all members of that group;

(2) any same shareholder group where the aggregate assets of all non-financial business companies belonging to that group equals or exceeds (Won)2 trillion; or

(3) any mutual fund where a same shareholder group identified in (1) or (2) above beneficially owns and/or exercises the voting rights of more than 9% of the total issued and outstanding voting shares of that mutual fund.

Sharing of Customer Information among Financial Holding Company and its Subsidiaries

Under the Act on Use and Protection of Credit Information, any individual customer’s credit information must be disclosed or otherwise used by financial institutions only to determine, establish or maintain existing commercial transactions with them and only after obtaining written consent to use that information. Under the Financial Holding Company Act, a financial holding company and its direct and indirect subsidiaries, however, may share certain credit information of individual customers among themselves for business purposes without the customers’ written consent. A subsidiary financial investment company with a dealing and/or brokerage license of a financial holding company may provide that financial holding company and its other direct and indirect subsidiaries information relating to the aggregate amount of cash or securities that a customer of the financial investment company with a dealing and/or brokerage license has deposited for business purposes.

Principal Regulations Applicable to Banks

The banking system in Korea is governed by the Bank Act of 1950, as amended (the “Bank Act”) and the Bank of Korea Act of 1950, as amended (the “Bank of Korea Act”). In addition, Korean banks come under the regulations and supervision of the Bank of Korea, the Monetary Policy Committee, the Financial Services Commission and its executive body, the Financial Supervisory Service.

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

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

The Financial Services Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and prepares regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, the Financial Services Commission, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

The Financial Supervisory Service was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the financial investment business with a trust license, must obtain permission from the Financial Services Commission. Permission to merge with any other banking institution, to liquidate, to spin off, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Korean government deems our financial condition to be unsound or if we fail to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy and Allowances

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

Under the Enforcement Detailed Rules on the Supervision of Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of, among other things, shareholders' equity, capital surplus, retained earnings and hybrid Tier I capital instruments. Tier II capital (supplementary capital) consists of, among other things, revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In November 2002, the Financial Supervisory Service amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans, which set the risk-weighted ratios of Korean banks in respect of home mortgage loans between 50% and 70% depending on the borrower's debt ratio and whether the home mortgage loans are overdue. On June 28, 2007, the Financial Supervisory Service further amended the Enforcement Detailed Rules on the Supervision of the Banking Business and, as a result, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans from January 1, 2008:

- (1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35%; and
- (2) for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Enforcement Detailed Rules on the Supervision of the Banking Business.

Under the Regulation on the Supervision of the Banking Business most recently amended on December 31, 2009, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including guarantees, and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to borrowers in the construction, wholesale and retail, accommodation and restaurant or real estate and housing industries (as classified under the Korean Industry Classification Standard), 1.0% in the case of normal credits comprising loans to individuals and households, and 1.5% in the case of normal credits comprising outstanding credit card receivables and card loans);
- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, and 15% in the case of precautionary credits comprising outstanding credit card receivables and card loans);
- 20% of substandard credits;
- 50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and
- 100% of estimated loss credits.

Furthermore, under a recent amendment to the Regulation on the Supervision of the Banking Business, Korean banks must establish allowances in respect of any confirmed guarantees (including confirmed acceptances) and outstanding unused credit line as of the date of settlement in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

See “—Recent Regulations Relating to Retail Household Loans” and “—Credit Card Business.”

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Rules on the Supervision of the Banking Business. Banks may not invest an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea. The Financial Services Commission also requires each Korean bank to:

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% and to make monthly reports to the Financial Supervisory Service;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than negative 3%;
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and
- submit monthly reports with respect to the maintenance of these ratios.

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

- 7% of average balances for Won currency demand deposits outstanding;
- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and
- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

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

Furthermore, pursuant to the Regulation on Supervision of Banking Business issued by the Financial Services Commission as amended by Notice No. 2009-65 dated December 31, 2009, beginning on July 1, 2010, foreign exchange agencies, including our subsidiary, Kookmin Bank, are required to hold “foreign currency safe assets” in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less multiplied by 2/12 and (y) an amount equal to one minus the “lowest rollover ratio” and (ii) 2% of its total foreign currency-denominated assets as shown in the balance sheet for the immediately preceding quarter. The “lowest rollover ratio” of a foreign exchange agency means the ratio of (A) its total debt with a maturity of one year or less (excluding overnight money) incurred in a particular month to (B) its total debt with maturity of one year or less (excluding overnight money) payable in that particular month, and is calculated by taking the lowest three month average from a period to be designated by the governor of the Financial Supervisory Service. Under the new regulation, foreign currency debt includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as designated by the governor of the Financial Supervisory

Service. “Foreign currency safe assets” are defined as cash denominated in foreign currency, deposits denominated in foreign currency with a central bank or financial institutions rated A or above, bonds issued or guaranteed by a government or central bank rated A or above or corporate bonds issued or guaranteed by corporations rated A or above. Accordingly, we may be required to acquire further foreign currency safe assets. Effective from January 1, 2010, the new regulation also increased the minimum “mid- to long-term foreign exchange funding ratio” applicable to foreign exchange agencies, including us, from 80% to 90% and, effective from August 1, 2010, it was increased again to 100%. “Mid-to long term foreign exchange funding ratio” refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Financial Exposure to Any Individual Customer and Major Shareholder

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

Amendments to the Bank Act which became effective on July 28, 2002 strengthened restrictions on extending credits to a major shareholder. A “major shareholder” is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10%; (or 15% in the case of regional banks) in the aggregate of the bank’s total issued voting shares; or
- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank’s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on “non-financial business group companies” as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than (Won)2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 9% of the total issued and outstanding shares.

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

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans made by registered banks in Korea may not exceed 44% per annum. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank’s interest expense.

Lending to Small- and Medium-sized Enterprises

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

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

Disclosure of Management Performance

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

- financial condition and profit and loss of the bank and its subsidiaries;
- fund raising by the bank and the appropriation of such funds;
- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and
- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act, occurrence of any of the following events listed below or any other event as prescribed by the applicable regulations:
 - (i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than (Won)4 billion;
 - (ii) the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result of that financial incident, or the governor of the Financial Supervisory Service has made a public announcement regarding the incident; and
 - (iii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than (Won)1 billion.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than petty loans of up to (Won)20 million in the case of a general loan, (Won)50 million in the case of a general loan plus a housing loan or (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to (Won)20 million or general and housing loans of up to (Won)50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission implemented a number of changes in recent years to the mechanisms by which a bank evaluates and report its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the Financial Services Commission and the Financial Supervisory Service increased the minimum provisioning requirements for retail household loans. These requirements, set forth in the following table, became effective on December 31, 2006:

<u>Asset Quality Classification</u>	<u>Provisioning Ratio On Retail Household Loans</u>	
	<u>Before</u>	<u>Current</u>
Normal	0.75% or above	1.0% or above
Precautionary	8.0% or above	10.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	55.0% or above	55.0% or above
Estimated loss	100.0%	100.0%

In addition, due to a rapid increase in the number of loans secured by homes and other forms of housing, the Financial Services Commission and the Financial Supervisory Service implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

- as to loans secured by a collateral of housing located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60%;
- as to loans secured by collateral of housing located in areas of excessive investment as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;
- as to loans secured by collateral of housing located outside of Seoul, Incheon and Gyeong-gi province, which housing was offered for sale on or before June 10, 2008 and with respect to which a sale contract is executed and earnest money deposit paid during the period between June 11, 2008 and June 30, 2009, the loan-to-value ratio should not exceed 70%;
- as to loans secured by apartments located in areas of high speculation as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over (Won)600 million, and (b) 60%, if the price of such apartment is (Won)600 million or lower;
- as to loans secured by apartments with appraisal value of more than (Won)600 million in areas of high speculation as designated by the government or certain metropolitan areas designated as areas of excessive investment by the government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40%;
- as to apartments located in areas of high speculation as designated by the government, a borrower is permitted to have only one new loan secured by such apartment;

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and
- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the government should not exceed 40%.

See “Item 3D. Risk Factors—Risks relating to government regulation and policy—Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may adversely affect our retail banking operations.”

Restrictions on Investments in Property

A bank may not invest in securities set forth below in excess of 60% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions):

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

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

Restrictions on Shareholdings in Other Companies

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

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

In the above exceptional cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions), or 30% of the sum of Tier I and Tier II capital (less any capital deductions) if the bank meets certain management conditions as set forth in the applicable rules adopted by the Financial Services Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 9% of that bank's outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares.

Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank and participate in the management of a bank in the manner prescribed in the Enforcement Decree of the Bank Act. If non-financial business group companies hold voting stock of a bank in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders' of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares of the bank that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of "non-financial business group companies" under the Bank Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit.

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

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the Korea Deposit Insurance Corporation on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The Korea Deposit Insurance Corporation insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits.

Restrictions on Foreign Exchange Position

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

Laws and Regulations Governing Other Business Activities

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

Trust Business

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

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

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed.

Under the Financial Investment Services and Capital Markets Act, which became effective in February 2009, a bank with a trust business license (such as Kookmin Bank) is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the effectiveness of the Financial Investment Services and Capital Markets Act.

Credit Card Business

General

In order to enter the credit card business, a company must register with the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on March 12, 2010, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. Credit card companies, including our wholly-owned subsidiary, KB Kookmin Card Co., Ltd., are regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company is required to disclose on a periodic and on-going basis certain material matters and events. In addition, a credit

card company must submit its business reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter.

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

Under the Specialized Credit Financial Business Act, a credit card company is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A credit card company is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. A credit card company may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the credit card company and members of such cards specifically provide for that transfer.

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

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

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

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

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

Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act issued in December 2003, a credit card company must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume.

Issuance of New Cards and Solicitation of New Cardholders

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

- persons who are at least 18 years old when they apply for a credit card;
- persons whose capability to pay bills as they come due has been verified using standards established by the credit card company; and

- in the case of minors who are at least 18 years and younger than 20 years, persons who submit a guardian's consent along with documents evidencing income, such as an employment certificate or a tax certificate.

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

- providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of credit cards with annual fees that are less than the average of the annual fees charged by the major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection with issuing a credit card;
- soliciting applicants on roads, public places or along corridors used by the general public;
- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;
- soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and
- soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

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

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

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on March 31, 2010. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;
- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;

- claims for damages caused by insider trading or market manipulation; and
- claims instituted against auditors for damages caused by accounting irregularities.

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

Financial Investment Services and Capital Markets Act

On July 3, 2007, the National Assembly of Korea passed the Financial Investment Services and Capital Markets Act, a new law consolidating six laws regulating capital markets. The Financial Investment Services and Capital Markets Act became effective in February 2009. Prior to the effective date, certain procedural matters were initiated from July 2008, as discussed further below.

The following is a summary of the major changes introduced under the Financial Investment Services and Capital Markets Act.

Consolidation of Capital Markets-Related Laws

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

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

Therefore, all financial businesses relating to financial investment products have been reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Business(es), irrespective of the type of the financial institution (for example, in principle, derivative businesses conducted by former securities companies and futures companies are subject to the same regulations under the Financial Investment Services and Capital Markets Act).

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

Comprehensive Definition of Financial Investment Products

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

New License System and the Conversion of Existing Licenses

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

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

Expanded Business Scope of Financial Investment Companies

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

their Financial Investment Business and (ii) to participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

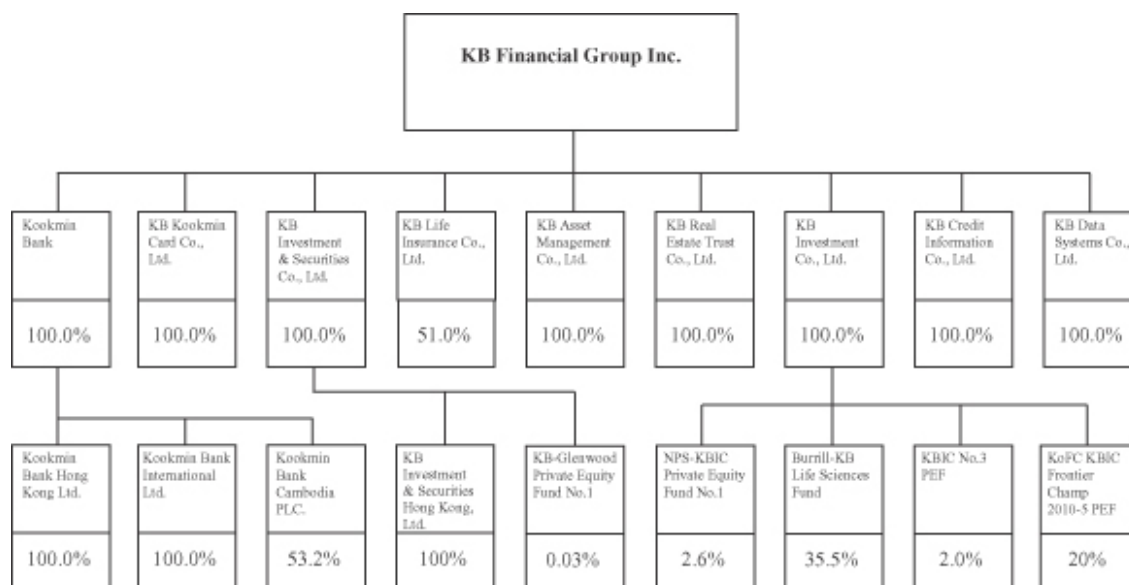
While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act distinguishes general investors from sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for a strict know-your-customer rule for general investors and imposes an obligation that Financial Investment Companies should market financial investment products suitable to each general investor, using written explanatory materials. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company could be liable if a general investor proves (i) damage or losses relating to such general investor's investment in financial investment products solicited by such Financial Investment Company and (ii) the absence of the requisite written explanatory materials, without having to prove fault or causation. With respect to conflicts of interest between Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Changes of Securities/Fund Regulations

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

Item 4C. Organizational Structure

The following chart provides an overview of our structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:



Our largest subsidiary is Kookmin Bank, the assets of which represented approximately 99% of our total assets as of December 31, 2010. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2010, including their total assets, net income, operating income and stockholders' equity:

Subsidiary	Total Assets	Operating Income (loss)	Net Income (loss)	Stockholders' Equity	
		(in millions of Won)			
Kookmin Bank	(Won)250,763,587	(Won)	(426,595)	(Won)(780,948)	(Won)16,353,884
KB Investment & Securities Co., Ltd.	2,211,467		42,223	32,505	330,249
KB Asset Management Co., Ltd.	142,624		38,260	29,280	125,349
KB Real Estate Trust Co., Ltd.	281,124		(7,320)	(5,845)	149,302
KB Investment Co., Ltd.	129,373		2,536	5,633	118,137
KB Futures Co., Ltd.	169,066		6,009	4,582	36,000
KB Credit Information Co., Ltd.	31,271		1,990	1,526	24,719
KB Data Systems Co., Ltd.	52,007		(2,633)	(2,756)	13,492
Kookmin Bank Hong Kong Ltd.	539,033		7,847	5,788	114,341
Kookmin Bank International Ltd.	374,007		12,252	24,828	79,653
KB Investment & Securities Hong Kong Ltd.	1,111		(1,285)	(1,285)	791
Kookmin Bank Cambodia PLC.	40,723		153	109	17,630
Powernet Technologies Corporation.	87,205		2,154	30	75,524

Further information regarding our subsidiaries is provided below:

- Kookmin Bank* was established in Korea in 2001 as a result of the merger of the former Kookmin Bank (established in 1963) and H&CB (established in 1967). Kookmin Bank provides a wide range of banking and other financial services to individuals, small- and medium-sized enterprises and large corporations in Korea. As of December 31, 2010, Kookmin Bank was the largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2010, Kookmin Bank had approximately 26 million customers, with 1,173 branches nationwide.

- *KB Investment & Securities Co., Ltd.*, was established in Korea in 1995 to provide various investment banking services. KB Investment & Securities was formerly known as Hannuri Investment & Securities Co., Ltd. and was acquired by Kookmin Bank on March 11, 2008. In March 2011, KB Investment & Securities was merged with KB Futures Co., Ltd., with KB Investment & Securities as the surviving entity.
- *KB Asset Management Co., Ltd.* was established in Korea in April 1988 as a subsidiary of Citizens Investment Trust Company to provide investment advisory services.
- *KB Real Estate Trust Co., Ltd.* was established in Korea in December 1996 to provide real estate development and brokerage services by managing trusts related to the real estate industry.
- *KB Investment Co., Ltd.* was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises.
- *KB Futures Co., Ltd.* was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions. In March 2011, KB Futures was merged with KB Investment & Securities, with KB Investment & Securities as the surviving entity. As such, KB Futures no longer exists as a separate entity.
- *KB Credit Information Co., Ltd.* was established in Korea in October 1999 to collect delinquent loans and to check credit history.
- *KB Data Systems Co., Ltd.* was established in Korea in September 1991 to provide software services to us and other financial institutions.
- *Kookmin Bank Hong Kong Ltd.* was established in Hong Kong in July 1995 to provide a broad range of corporate banking services.
- *Kookmin Bank International Ltd.* was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.
- *KB Investment & Securities Hong Kong Ltd.* was established in Hong Kong in October 2002 to provide various investment banking services. KB Investment & Securities Hong Kong is undergoing liquidation proceedings, which is expected to be completed by the end of 2011.
- *Kookmin Bank Cambodia PLC* was established in Cambodia in May 2009 to provide various banking services in Cambodia.
- *KB Life Insurance Co., Ltd.*, which is not a consolidated subsidiary under U.S. GAAP, was established in Korea in April 2004 to provide life insurance and wealth management products primarily through our branch network.
- *KB Kookmin Card Co., Ltd.* was established in March 2011 as a separate entity upon the completion of a horizontal spin-off of Kookmin Bank's credit card business, to provide credit card services.
- *Powernet Technologies Corporation* was established in Korea in February 1994 to manufacture and sell electronic parts. Powernet Technologies Corporation is majority-owned by Chungkang Co., Ltd., which is wholly-owned by KB-Glenwood Private Equity Fund No. 1.
- *Other Subsidiaries.* For the year ended December 31, 2010, we derived operating income of (Won)47 billion (primarily reflecting non-recurring income of our special purpose vehicle subsidiaries) and net income of (Won)177 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Item 4D. Property, Plants and Equipment

Our registered office and corporate headquarters are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea. The following table presents information regarding certain of our properties in Korea:

<u>Type of facility/building</u>	<u>Location</u>	<u>Area (square meters)</u>
Registered office and corporate headquarters	9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703	1,749
Kookmin Bank headquarters building	36-3, Yeouido-dong, Yeongdeungpo-gu, Seoul 150-758	5,354
Kookmin Bank headquarters building	Jongro-gu, Seoul	3,704
Kookmin Bank Training institute	Ilsan	207,659
Kookmin Bank Training institute	Daecheon	4,158
Kookmin Bank Training institute	Sokcho	15,584
Kookmin Bank Training institute	Cheonan	196,649
Kookmin Bank IT center	Gangseo-gu, Seoul	13,116
Kookmin Bank IT center	Yeouido, Seoul	5,928
Kookmin Bank IT center	Yeouido, Seoul	2,006
Kookmin Bank IT center	Seongbuk-gu, Seoul	4,748

As of December 31, 2010, we had a countrywide network of 1,173 banking branches and sub-branches, as well as 31 branches for our other operations including credit information, real estate and insurance-related businesses. Approximately one-quarter of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong, Cambodia and the United Kingdom and branches of Kookmin Bank in Tokyo in Japan, Auckland in New Zealand, New York in the United States and Guangzhou, Harbin and Suzhou in China, as well as representative offices of Kookmin Bank in Ho Chi Minh City in Vietnam and Kyiv in the Ukraine. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2010 was (Won)1,243 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5A. Operating Results

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP.

We were established on September 29, 2008 pursuant to a “comprehensive stock transfer” under Korean law, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us, a new financial holding company, and in return received shares of our common stock. See “Item 4A. History and Development of the Company—The Establishment of KB Financial Group.” The stock

transfer was accounted for under U.S. GAAP as a transaction between entities under common control and, with respect to the transfer by noncontrolling stockholders of Kookmin Bank's subsidiaries included in the stock transfer, the acquisition by us of such noncontrolling interests of such subsidiaries was accounted for using the purchase method. Accordingly, the consolidated financial statements included in this annual report are, as of dates and for periods prior to the date of the stock transfer, for Kookmin Bank and its subsidiaries, and as of dates and for periods from and after the date of the stock transfer, for us and our subsidiaries, including Kookmin Bank. For further information regarding the accounting treatment of the stock transfer, see Note 3 of the notes to our consolidated financial statements.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea.

Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally from the second half of 2008, have led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. In 2010, under Korean GAAP, we recorded charge-offs of (Won)1,568 billion and provisions of (Won)1,827 billion in respect of our loans to small- and medium-sized enterprises, compared to charge-offs of (Won) 1,313 billion and provisions of (Won)1,945 billion in 2009. See "Item 3D. Risk Factors—Risks relating to our small- and medium-sized enterprise loan portfolio."

In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in retail lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid growth in retail lending, together with adverse economic conditions from the second half of 2008, have led to increasing loan loss provisions, non-performing loans and charge-offs. In 2010, we recorded charge-offs of (Won)517 billion in respect of our retail loan portfolio, compared to charge-offs of (Won)362 billion in 2009. See "Item 3D. Risk Factors—Risks relating to our retail credit portfolio."

The Korean economy is closely tied to, and is affected by developments in, the global economy. During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 325 basis points in order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2011 and beyond remain uncertain. For example, many governments worldwide, in particular in Portugal, Spain, Greece and other countries in southern Europe, have shown signs of fiscal stress and may experience difficulties in meeting their debt service requirements. In addition, recent political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya and Bahrain have resulted in volatility and uncertainty in the

global financial and energy markets. Moreover, the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and the resulting releases of radiation from damaged nuclear power plants in the area have added to the uncertainty in global economic prospects. Any of these or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are considering or are in the process of implementing “exit strategies,” in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely. While such fluctuations have generally stabilized in the second half of 2010 and into 2011, there is no guarantee that they will not occur again in the future. See “Item 3A. Selected Financial Data—Exchange Rates.” A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method, including our noncontrolling equity stake in JSC Bank CenterCredit, a Kazakhstan bank, the initial stake in which we acquired in 2008. See “Item 4B. Business Overview—Capital Markets Activities and International Banking—International Banking.”

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, increases in inflation rates, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2011 and for the foreseeable future remains uncertain.

New Basel Capital Accord

Beginning on January 1, 2008, the Financial Supervisory Service implemented Basel II in Korea, which has substantially affected the way risk is measured among Korean financial institutions, including Kookmin Bank. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk and market risk and on capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk when calculating risk-weighted assets. While the implementation of Kookmin Bank’s internal ratings-based approach in 2008 has increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Kookmin Bank’s credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital. See “Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy.”

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental

measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. The timing and scope of implementation of Basel III in Korea remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	June 30, 2006	Dec. 29, 2006	June 29, 2007	Dec. 31, 2007	June 30, 2008	Dec. 30, 2008	June 30, 2009	Dec. 30, 2009	June 30, 2010
KOSPI	1,295.15	1,434.46	1,743.60	1,897.13	1,674.92	1,124.47	1,390.07	1,682.77	1,698.29
Won/US\$ exchange rates ⁽¹⁾	(Won) 948.5	(Won) 930.0	(Won) 922.6	(Won) 935.8	(Won) 1,046.8	(Won) 1,257.4	(Won) 1,273.5	(Won) 1,163.7	(Won) 1,273.5
Corporate bond rates ⁽²⁾	5.3%	5.2%	5.6%	6.9%	6.9%	8.1%	5.6%	5.7%	5.0
Treasury bond rates ⁽³⁾	4.9%	4.9%	5.3%	5.7%	5.9%	3.4%	4.2%	4.4%	3.9

(1) Represents the noon buying rate on the dates indicated.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Strategy and Finance of Korea.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Allowance for Credit Losses

We evaluate our credit portfolio for impairment on an ongoing basis. We have established an allowance for credit losses, which is available to absorb probable losses that have been incurred in our credit portfolio as of the balance sheet date. If we believe that additions or changes to the allowance for credit losses are required, then we record provisions for credit losses, which are treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual credit losses, net of recoveries of previously charged-off amounts, are charged directly against the allowance for credit losses.

We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our credit portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions. We evaluate corporate loans, consumer loans and off-balance sheet credit instruments in different ways, due to their respective characteristics, as follows:

- We generally evaluate impaired corporate loans individually, due to the unique characteristics of individual corporate borrowers, and establish an allowance for loan losses for such loans. As described in more detail in Note 1 of our consolidated financial statements, we consider a loan impaired when, after considering risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement, including principal and interest. Once we have identified loans as impaired, we generally value them

either based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at a loan's observable market price or the fair value of the collateral if a loan is collateral dependent. If the resulting value is less than the carrying value of the loan, we establish a specific allowance for the difference, which is deemed uncollectible.

- We also establish an allowance for loan losses for corporate loans that we do not believe are impaired. This allowance is established for each homogeneous pool of these loans based on our historical loss experience for these types of loans.
- We establish an allowance for losses related to leases based on historical loss experience for these types of loans.
- We generally evaluate consumer loans, including mortgages and home equity loans and credit card balances, as individual pools for loan loss reserve purposes due to their homogeneous nature, and establish an allowance for loan losses relating to each pool based on historical loss experience.
- We establish an allowance for losses for off-balance sheet credit instruments based on the probability of usage and historical loss experience.

Factors that we consider when establishing reserves for homogeneous pools of corporate and consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

We believe that the accounting estimate related to our allowance for credit losses is a "critical accounting policy" because: (1) it is highly susceptible to change from period to period because it requires us to make assumptions about future default rates and losses relating to our credit portfolio; and (2) any significant difference between our estimated credit losses (as reflected in our allowance for credit losses) and actual credit losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2010 included a total allowance for credit losses of (Won)4,978 billion as of that date (including allowances of (Won)731 billion with respect to off-balance sheet credit instruments). Our total loan charge-offs, net of recoveries, amounted to (Won)2,311 billion and we recorded a provision for credit losses of (Won) 3,568 billion in 2010.

Valuation of Securities and Financial Instruments

We invest in various financial instruments including debt and equity securities, derivatives and securities in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ("SFAS") No. 157 "Fair Value Measurements" ("ASC 820-10"), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We determine the fair value of our financial instruments that are recognized or disclosed at fair value in the financial statements on a recurring basis in accordance with ASC 820-10. However, certain provisions of ASC 820-10 that relate to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis were adopted on January 1, 2009.

The fair value hierarchy established in ASC 820-10 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not

readily available, our own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. In accordance with ASC 820-10, we use the following three levels of inputs in measuring fair value:

- *Level 1:* Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.
- *Level 2:* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3:* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable input data, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in measuring fair value of our financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than those that are thinly traded or not quoted. In accordance with ASC 820-10, the criteria we use to determine whether the market for a financial instrument is active or inactive are based on the particular asset or liability.

As a result of the adoption of ASC 820-10, we have made certain amendments to the techniques we use in measuring the fair value of derivatives and other positions. These amendments change the way that the probability of default of a counterparty is factored into the valuation of derivative positions and include the impact of our own credit risk on derivatives and other liabilities measured at fair value.

In accordance with ASC 820-10, we maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When market prices are available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurements are based upon models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. We use either Level 1 or Level 2 measurements to determine the fair value of most financial instruments recorded in our financial statements. However, in circumstances where market prices are limited or unavailable, valuations may require significant management judgments or adjustments that utilize significant unobservable inputs, to determine fair value. In these cases, the applicable financial instruments are classified as Level 3.

The following provides a brief description of our valuation methodologies used to measure fair value by type of financial instruments:

- *Trading and available-for-sale securities and securities sold short, not yet purchased:* The fair value of the securities included in trading assets, available-for-sale securities included in investments and securities in short position included in trading liabilities is recognized in our consolidated balance sheets based on quoted market prices, where available. For the securities traded in the over-the-counter market, we generally determine fair value utilizing internal valuation techniques or based on prices obtained from independent pricing services or brokers. Trading securities and available-for-sale securities recorded by using valuation methods and prices obtained from pricing services or brokers are generally classified as Level 2, except in cases where such quoted prices include unobservable inputs (such as estimates of cash flows, correlations among factors, recovery rates, etc.) to the models, in

which case such financial instruments are classified as Level 3. We validate prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review by our personnel who are familiar with market liquidity and other market-related conditions. We have internal price verification procedures and review fair value methodology documentation provided by independent pricing services.

- *Other securities in venture capital activities:* Other securities include venture capital securities. We carry venture capital investments traded publicly at fair value based on quoted market prices. If significant inputs (such as estimates of cash flows, yield curves and credit spreads) to the fair value measurement for such securities are unobservable in the market due to limited activity, such securities are classified as Level 3.
- *Derivatives assets and liabilities:* The majority of derivatives we enter into are traded in over-the-counter markets, and no quoted market prices exist for such instruments. The fair values of those derivatives are determined using internal valuation models that require the use of multiple market inputs including interest rate, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The derivatives are placed as either Level 2 or Level 3 depending on the observability of significant inputs to the applicable internal valuation model. Most forwards, swaps and options are valued using internally developed models that use as their basis readily observable market parameters. However, a few forwards, swaps and options were valued using unobservable inputs such as correlations and historical volatilities. Futures are exchange-traded derivatives classified as Level 1. Credit default swaps are valued based on models with significant unobservable market parameters and are normally traded less actively, which would be classified as Level 3.

With respect to our derivative positions, the majority of which are valued using internally developed models that use as their basis observable market inputs as described above, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment is based on market-based measures of credit risk to the extent available and also takes into account contractual factors designed to reduce our credit exposure to each counterparty. Debt valuation adjustments are applied to reflect our own credit risk when measuring derivative liabilities at fair value in accordance with the requirements of ASC 820-10. The methodology to determine the adjustment is consistent with counterparty credit risk adjustment and incorporates our credit spread as observed through the credit default swap market.

Our management evaluates investments in a loss position for other-than-temporary impairment. Decreases in the fair value of equity securities below their cost basis that are deemed to be other-than-temporary must be written off through a charge to income. For investment debt securities, the credit loss component of the impairment is recognized in earnings, while the remaining amount of the fair value loss is recognized in accumulated comprehensive income if (1) we do not intend to sell such securities and (2) we believe that it is more-likely-than-not that we will not be required to sell before the expected recovery of the amortized cost basis. Factors we consider in determining whether a credit loss exists and the period over which an investment debt security is expected to recover include the following: the length of time and extent to which fair value is less than cost, the status, financial condition and near-term prospects of the issuer, the status of the security, our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the condition of the Korean and relevant foreign economies. Any change in these assumptions could significantly affect the valuation and timing of recognition of an other-than-temporary impairment.

We believe that the accounting estimates related to the fair market value and other-than-temporary impairment of our various securities is a “critical accounting policy” because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses

or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether or not any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Goodwill and Other Intangible Assets

We recognized a significant amount of goodwill in connection with the merger of the former Kookmin Bank with Korea Long Term Credit Bank in 1998 and our acquisition of KB Investment & Securities in March 2008, as well as our acquisition of noncontrolling interest in our consolidated subsidiaries pursuant to the comprehensive stock transfer through which we were established in 2008. We also recognized goodwill in connection with our acquisition in May 2009 of 51% of the voting rights in Khmer Union Bank, which was renamed Kookmin Bank Cambodia PLC. In addition, we acquired core deposit and credit card relationship intangible assets upon our merger with H&CB in 2001.

Goodwill represents the excess of acquisition cost over the fair value of assets and liabilities acquired in a business combination. We allocated goodwill to the reporting unit level, which we define as an operating segment, or one level below. We do not amortize goodwill. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate that it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. Although the assumptions used are consistent with internal planning, significant management judgment is involved in estimating these variables, which include inherent uncertainties. A discount rate is applied to the cash flow estimates considering our cost of capital rate and specific country and industry risk factors.

We recorded the other intangible assets at their estimated fair values. The core deposit intangible assets reflects the value of the base of demand deposits and savings accounts acquired, which we can expect to maintain for an extended period because of generally stable customer relationships. The fair value of this asset was based principally upon the estimates of: (1) the funding benefits that these deposits provide relative to our alternative funding sources; and (2) the projected run-off of the related customer accounts. The credit card relationship intangible assets reflect the value of the credit card relationships acquired from which we expect to derive future benefits over the estimated life of such relationships. The fair value of this asset was based principally upon the estimates of: (1) the profitability of the acquired accounts; and (2) the projected run-off of the acquired accounts. We will amortize these intangible assets over their estimated useful lives, which range from approximately six to ten years, on an accelerated basis. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangible assets. We periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

We believe that the accounting estimates related to the fair values of our acquired goodwill and other intangible assets is a “critical accounting policy” because: (1) they may be highly susceptible to change from period to period because they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant difference between our estimates and the actual amounts could result in valuation losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill and other intangible assets could fluctuate in the future, based on a variety of factors.

Valuation Allowance for Deferred Tax Assets and Uncertain Tax Positions

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from tax authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter. From January 1, 2007, with respect to accounting for uncertainty in our tax positions, we adopted ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

This interpretation uses a two-step approach, wherein a tax benefit is recognized if a tax position is more likely than not to be sustained upon examination by tax authorities, and the amount recognized is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities. Differences between tax positions taken in a tax return and amounts recognized are reflected in the financial statements as adjustments of income tax expense or deferred tax assets (liabilities). In addition, interest and penalties related to tax positions are classified as a component of income tax expense. ASC 740 also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including detailed carry-forwards of tax benefits taken that do not qualify for financial statement recognition.

Although we recorded a loss before income tax expense in 2010 compared to income before income tax expense in 2009, we recognized higher income tax expense in 2010 compared to 2009, primarily due to a change from (Won)15 billion of tax benefit recognized under ASC 740 in 2009 to (Won)379 billion of tax expense recognized under ASC 740 in 2010. See “—Results of Operations—Income Tax Expense—Comparison of 2010 to 2009.”

As a result of losses incurred by certain of our subsidiaries in the past, we had an aggregate of (Won)148 billion of net operating loss carry-forwards as of December 31, 2010, which expire from 2011 to 2019. We may be able to use these net operating loss carry-forwards, as well as temporary differences in the amount of tax recorded for tax purposes and accounting purposes, to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then, based on our internal estimates of our future profits, establish a valuation allowance equal to the extent that it is more likely than not that deferred tax assets will not be realized. We record a benefit or expense under the income tax expense/benefit line of our income statement when there is a net change in our total deferred tax assets and liabilities in a period. In 2008, 2009 and 2010, we recorded a valuation allowance for a certain amount of deferred tax assets resulting from net operating loss carry-forwards and land revaluation due to the uncertainty of the amount of our future profitability.

We believe that the estimates related to our recognition and measurement of uncertain tax positions and the establishment of the valuation allowance for deferred tax assets are a “critical accounting policy” because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding the final outcome of our uncertain tax positions and our future profitability; and (2) any significant difference between our estimates of such outcomes and future profits on any particular date and estimates of such outcomes and future profits on a different date could result in an income tax expense or benefit which may have a material impact on our net income from period to period. Our assumptions about the final outcomes of our uncertain tax positions and our future profitability require significant judgment and are inherently subjective.

Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income:

	Year Ended December 31,			Year Ended December 31,	
	2008 ⁽¹⁾	2009	2010	2009/2008	2010/2009
	(in billions of Won, except percentages)			(% change)	
Interest and dividend income ⁽¹⁾					
Loans, including fees	(Won)13,865	(Won)11,840	(Won)11,212	(14.6)%	(5.3)%
Trading securities	282	191	234	(32.3)	22.5
Investment securities	1,488	1,489	1,471	0.1	(1.2)
Call loans and securities purchased under resale agreements	88	46	86	(47.7)	87.0
Deposits	14	24	33	71.4	37.5
Total interest and dividend income	15,737	13,590	13,036	(13.6)	(4.1)
Interest expense					
Deposits	6,314	5,450	4,709	(13.7)	(13.6)
Call money	121	67	25	(44.6)	(62.7)
Other borrowed funds	417	282	215	(32.4)	(23.8)
Secured borrowings	342	240	176	(29.8)	(26.7)
Long-term debt	2,166	2,192	1,846	1.2	(15.8)
Total interest expense	9,360	8,231	6,971	(12.1)	(15.3)
Net interest income	(Won) 6,377	(Won) 5,359	(Won) 6,065	(16.0)	13.2
Net interest margin ⁽²⁾	2.83%	2.21%	2.50%		

⁽¹⁾ Excludes an interest payment of (Won)92 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest income was excluded as it was a one-time event in response to the global financial crisis in 2008 and the Bank of Korea generally does not pay interest on its required reserves. See “—Overview—Trends in the Korean Economy.”

⁽²⁾ The ratio of net interest income to average interest earning assets. See “Item 3A. Selected Financial Data—Profitability ratios and other data.”

Comparison of 2010 to 2009

Interest and dividend income. Interest and dividend income decreased 4.1% from (Won)13,590 billion in 2009 to (Won)13,036 billion in 2010, primarily due to a 5.3% decrease in interest and fees on loans. The average balance of our interest earning assets remained relatively constant at (Won)242,187 billion in 2010 compared to (Won)242,156 billion in 2009, while average yields on our interest earning assets decreased by 23 basis points from 5.61% in 2009 to 5.38% in 2010.

The 5.3% decrease in interest and fees on loans from (Won)11,840 billion in 2009 to (Won)11,212 billion in 2010 was primarily the result of:

- a 3.0% decrease in the average volume of commercial and industrial loans from (Won)78,206 billion in 2009 to (Won)75,836 billion in 2010, which was enhanced by a decrease of 14 basis points in average yields on such loans from 5.74% in 2009 to 5.60% in 2010;
- a decrease of 164 basis points in average yields on credit card balances, primarily in cash advances and credit card loans, from 12.14% in 2009 to 10.50% in 2010, which was partially offset by a 4.9% increase in the average volume of credit card balances from (Won)11,355 billion 2009 to (Won)11,906 billion in 2010; and

- a 19.5% decrease in the average volume of construction loans from (Won)9,067 billion in 2009 to (Won)7,302 billion in 2010, which was partially offset by an increase of 14 basis points in average yields on such loans from 6.20% in 2009 to 6.34% in 2010.

The decreases in the average yields on commercial and industrial loans and credit card balances resulted primarily from a general decrease in interest rates in Korea in 2010. The increase in the average yields on construction loans was mainly due to our application of higher interest rates on construction loans as risk premium in light of the continuing adverse conditions in the construction industry in Korea. The average volume of commercial and industrial loans increased mainly as a result of increased lending to small- and medium-sized enterprises primarily due to policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support to small- and medium-sized enterprises. The increase in the average volume of credit card balances mainly reflected our marketing efforts to procure new credit card subscribers. The decrease in the average volume of construction loans resulted primarily from our efforts to reduce our construction loan portfolio in light of the continuing adverse conditions in the construction industry in Korea.

Overall, the average volume of our loans decreased 2.0%, from (Won)201,507 billion in 2009 to (Won)197,493 billion in 2010, while the average yields on our loans decreased 20 basis points, from 5.88% in 2009 to 5.68% in 2010, reflecting the lower interest rate environment.

Our securities portfolio consists primarily of investment securities, of which 79.7% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2010. Interest and dividends on investment securities decreased 1.2% from (Won)1,489 billion in 2009 to (Won)1,471 billion in 2010. This decrease was due to a decrease of 20 basis points in average yields on such securities from 4.57% in 2009 to 4.37% in 2010, primarily due to the general decrease in market interest rates in Korea for debt securities. The effect of this decrease was partially offset by a 3.3% increase in the average volume of investment securities from (Won)32,586 billion in 2009 to (Won)33,664 billion in 2010, which mainly reflected our increased purchases of Korean treasury securities and debt securities issued by government agencies.

Our securities portfolio also includes trading securities, of which 87.6% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2010. Interest and dividends on trading securities increased 22.5% from (Won)191 billion in 2009 to (Won)234 billion in 2010. This increase was primarily due to a 27.1% increase in the average volume of trading securities from (Won)4,505 billion in 2009 to (Won)5,724 billion in 2010, which mainly reflected our increased purchases of debt securities issued by financial institutions. The effect of this increase was partially offset a decrease of 15 basis points in average yields on such securities from 4.24% in 2009 to 4.09% in 2010, primarily due to the general decrease in market interest rates in Korea, including for debt securities.

Interest Expense. Interest expense decreased 15.3% from (Won)8,231 billion in 2009 to (Won)6,971 billion in 2010, primarily due to a 13.6% decrease in interest expense on deposits, as well as a 15.8% decrease in interest expense on long-term debt. The average balance of our interest bearing liabilities decreased 1.7% from (Won)226,341 billion in 2009 to (Won)222,457 billion in 2010, principally as a result of a decrease in the average volume of long-term debt, which was enhanced by a 51 basis point decrease in the average cost of our interest bearing liabilities from 3.64% in 2009 to 3.13% in 2010.

The 13.6% decrease in interest expense on deposits from (Won)5,450 billion in 2009 to (Won)4,709 billion in 2010 was primarily the result of a 58.5% decrease in the average volume of certificates of deposit from (Won)26,423 billion in 2009 to (Won) 10,960 billion in 2010, which was enhanced by a 47 basis point decrease in the average interest rate paid on certificates of deposit from 4.50% in 2009 to 4.03% in 2010. The decrease in the

average volume of certificates of deposit was primarily attributable to a reduced emphasis on certificates of deposit, relative to other lower-cost deposit products, in our marketing efforts in 2010. The decrease in the average interest rate paid on certificates of deposit was primarily the result of the lower interest rate environment in Korea in 2010.

The 15.8% decrease in interest expense on long-term debt from (Won)2,192 billion in 2009 to (Won)1,846 billion in 2010 was due to a 14.2% decrease in the average volume of such debt from (Won)42,333 billion in 2009 to (Won)36,342 billion in 2010, due primarily to our decreased use of long-term debt to meet our funding needs. The effect of this decrease was enhanced by a 10 basis point decrease in the average cost of such debt from 5.18% in 2009 to 5.08% in 2010, which was attributable mainly to the general decrease in market interest rates in Korea, including for such debt.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin increased from 2.21% in 2009 to 2.50% in 2010 as our net interest income increased 13.2% from (Won)5,359 billion in 2009 to (Won)6,065 billion in 2010. The average volume of our interest earning assets remained relatively constant at (Won)242,187 billion in 2010 compared to (Won)242,156 billion in 2009, while the average volume of our interest bearing liabilities decreased 1.7% from (Won)226,341 billion in 2009 to (Won)222,457 billion in 2010. The decrease in interest expense outpaced the decrease in interest income, resulting in the increase in net interest income. The magnitude of this increase was enhanced by an increase our net interest spread, which represents the difference between the average yield on our interest earning assets and the average cost of our interest bearing liabilities, from 1.97% in 2009 to 2.25% in 2010. The increase in net interest spread reflected a larger decrease in 2010 in the average cost of our interest bearing liabilities, relative to the decrease in the average yield on our interest earning assets, as interest rates on interest bearing liabilities generally adjusted later than those on interest earning assets in the context of the lower interest rate environment in 2009 and 2010.

Comparison of 2009 to 2008

Interest and dividend income. Interest and dividend income decreased 13.6% from (Won)15,737 billion in 2008 to (Won)13,590 billion in 2009, primarily due to a 14.6% decrease in interest and fees on loans. The average balance of our interest earning assets increased 7.6% from (Won)225,102 billion in 2008 to (Won)242,156 billion in 2009, principally as a result of increases in loans and investment securities, which was more than offset by a 138 basis point decrease in average yields on our interest earning assets from 6.99% in 2008 to 5.61% in 2009.

The 14.6% decrease in interest and fees on loans from (Won)13,865 billion in 2008 to (Won)11,840 billion in 2009 was primarily the result of:

- a decrease of 214 basis points in average yields on mortgage and home equity loans from 6.84% in 2008 to 4.70% in 2009, which was partially offset by a 3.7% increase in the average volume of such loans from (Won)68,154 billion in 2008 to (Won)70,643 billion in 2009;
- a decrease of 109 basis points in average yields on commercial and industrial loans from 6.83% in 2008 to 5.74% in 2009, which was partially offset by an 11.0% increase in the average volume of such loans from (Won)70,442 billion in 2008 to (Won)78,206 billion in 2009;
- a decrease of 157 basis points in average yields on other consumer loans from 8.42% in 2008 to 6.85% in 2009, which was partially offset by a 6.1% increase in the average volume of such loans from (Won)25,716 billion in 2008 to (Won)27,273 billion in 2009; and
- a decrease of 98 basis points in average yields on construction loans from 7.18% in 2008 to 6.20% in 2009, which was enhanced by a 4.5% decrease in the average volume of such loans from (Won)9,491 billion in 2008 to (Won)9,067 billion in 2009.

The decreases in the average yields on mortgage and home equity loans, commercial and industrial loans, other consumer loans and construction loans were primarily the result of the lower interest rate environment in Korea in 2009, which reflected the low policy rate maintained by the Bank of Korea throughout 2009 as part of

the Korean government's initiative to stimulate the domestic economy in the wake of the global financial crisis. The increase in the average volume of mortgage and home equity loans was mainly due to higher demand for such loans in Korea. The average volume of commercial and industrial loans increased mainly as the result of increased lending to small- and medium-sized enterprises primarily due to policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support to small- and medium-sized enterprises. The increase in the average volume of other consumer loans, which are primarily unsecured and generally have relatively higher interest rates, mainly reflected higher demand for such loans in Korea. The decrease in the average volume of construction loans was primarily a result of a decrease in demand for such loans mainly due to the downturn in the construction industry in Korea.

Overall, the average volume of our loans increased 6.6%, from (Won)189,012 billion in 2008 to (Won)201,507 billion in 2009, while the average yields on our loans decreased 146 basis points, from 7.34% in 2008 to 5.88% in 2009, reflecting the lower interest rate environment.

Our securities portfolio consists primarily of investment securities, of which 80.9% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2009. Interest and dividends on investment securities remained relatively constant in 2009 compared to 2008, as the effects of a 14.5% increase in the average volume of such securities from (Won)28,458 billion in 2008 to (Won)32,586 billion in 2009, which mainly reflected our increased purchases of Korean treasury securities and debt securities issued by government agencies and financial institutions, were largely offset by a 66 basis point decrease in average yields on such securities from 5.23% in 2008 to 4.57% in 2009, which was primarily due to the general decrease in market interest rates in Korea for debt securities.

Our securities portfolio also includes trading securities, of which 91.5% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2009. Interest and dividends on trading securities decreased 32.3% from (Won)282 billion in 2008 to (Won)191 billion in 2009. This decrease was primarily due to a decrease of 120 basis points in average yields on such securities from 5.44% in 2008 to 4.24% in 2009, primarily due to the general decrease in market interest rates in Korea for debt securities.

Interest Expense. Interest expense decreased 12.1% from (Won)9,360 billion in 2008 to (Won)8,231 billion in 2009, primarily due to a 13.7% decrease in interest expense on deposits, as well as a 32.4% decrease in interest expense on other borrowed funds. The average balance of our interest bearing liabilities increased 9.2% from (Won)207,335 billion in 2008 to (Won)226,341 billion in 2009, principally as a result of increases in deposits and long-term debt, which was more than offset by an 87 basis point decrease in the average cost of our interest bearing liabilities from 4.51% in 2008 to 3.64% in 2009.

The 13.7% decrease in interest expense on deposits from (Won)6,314 billion in 2008 to (Won)5,450 billion in 2009 was primarily the result of:

- a 154 basis point decrease in the average interest rate paid on certificates of deposit from 6.04% in 2008 to 4.50% in 2009, which was partially offset by a 4.1% increase in the average volume of certificates of deposit from (Won)25,392 billion in 2008 to (Won)26,423 billion in 2009;
- a 91 basis point decrease in the average interest rate paid on other time deposits from 5.36% in 2008 to 4.45% in 2009, which was partially offset by a 13.2% increase in the average volume of such deposits from (Won)77,495 billion in 2008 to (Won)87,721 billion in 2009; and
- a 57 basis point decrease in the average interest rate paid on savings deposits from 1.06% in 2008 to 0.49% in 2009, which was partially offset by a 10.8% increase in the average volume of such deposits from (Won)41,761 billion in 2008 to (Won)46,277 billion in 2009.

The decreases in the average interest rates paid on certificates of deposit, other time deposits and savings deposits were primarily the result of the lower interest rate environment in Korea in 2009. The increases in the average volumes of certificates of deposit, other time deposits and savings deposits were primarily attributable to increased demand for such deposit products, as alternatives to higher-risk investments.

Other borrowed funds include borrowings from the Bank of Korea and other short-term borrowings. The 32.4% decrease in interest expense on other borrowed funds from (Won)417 billion in 2008 to (Won)282 billion in 2009 was mainly due to a 160 basis point decrease in the average cost of other short-term borrowings from 4.63% in 2008 to 3.03% in 2009, which was attributable mainly to the general decrease in market interest rates in Korea for such debt.

Net interest margin. Our overall net interest margin decreased from 2.83% in 2008 to 2.21% in 2009 primarily as a result of a decrease in our net interest income, the effect of which was enhanced by an increase in the average volume of interest earning assets. Net interest income decreased 16.0% from (Won)6,377 billion in 2008 to (Won)5,359 billion in 2009, while the average volume of our interest earning assets increased 7.6% from (Won)225,102 billion in 2008 to (Won)242,156 billion in 2009. The effects of the increase in the average volume of our interest earning assets were largely matched by the 9.2% increase in the average volume of our interest bearing liabilities from (Won)207,335 billion in 2008 to (Won)226,341 billion in 2009. However, our net interest spread declined from 2.48% in 2008 to 1.97% in 2009. The decline in net interest spread reflected a larger decrease in the average yield on our interest earning assets, relative to the decrease in the average cost of our interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment, as well as the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

Provision for Credit Losses

For a discussion of our loan loss provisioning policy, see “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Provisioning Policy.”

Comparison of 2010 to 2009

Our provision for credit losses increased 61.9% from (Won)2,204 billion in 2009 to (Won)3,568 billion in 2010, primarily due to an increase in our provision for loan losses in respect of our corporate loans. Such increase resulted mainly from a deterioration in the asset quality of our loans to the construction and shipbuilding sectors.

Our loan charge-offs, net of recoveries, increased 20.1% from (Won)1,925 billion in 2009 to (Won)2,311 billion in 2010. Such increase was attributable mainly to a (Won)381 billion increase in net charge-offs of corporate loans, including primarily loans to the construction and shipbuilding sectors, as a result of the continuing deterioration in the asset quality of such loans in 2010.

Comparison of 2009 to 2008

Our provision for credit losses decreased 4.7% from (Won)2,313 billion in 2008 to (Won)2,204 billion in 2009, primarily due to a decrease in our provision for credit losses on off-balance sheet credit instruments, which reflected a decrease in the maximum aggregate potential amount of future payments under guarantees and commercial letters of credit.

Our loan charge-offs, net of recoveries, increased 99.3% from (Won)966 billion in 2008 to (Won)1,925 billion in 2009. Such increase was attributable mainly to a (Won)650 billion increase in net charge-offs of corporate loans, including primarily loans to small- and medium-sized enterprises, as a result of the continuing deterioration in the asset quality of such loans in 2009.

Allowance for Loan Losses

For information on allowance for loan losses, see “—Critical Accounting Policies—Allowance for Loan Losses” and “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Allocation of Allowance for Loan Losses.”

Corporate Loans. We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Provisioning Policy.” We also establish an allowance for loan losses for corporate loans that we do not believe are impaired based on our historical loss experience for those types of loans. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	As of December 31,		
	2008	2009	2010
Impaired loans as a percentage of total corporate loans	3.7%	3.5%	4.5%
Allowance for loan losses as a percentage of total corporate loans	2.7	3.1	4.2
Allowance for loan losses as a percentage of impaired loans	45.1	47.6	52.1

During 2010, impaired loans and allowance for loan losses, each as a percentage of total corporate loans, increased due to significant growth in our impaired loans and allowance for loan losses. In addition, allowance for loan losses as a percentage of impaired loans increased during 2010 as a result of the deterioration in the asset quality of construction and shipbuilding loans, which led to a worse overall mix of impaired loans.

During 2009, impaired loans as a percentage of total corporate loans decreased, while the level of allowance for loan losses as a percentage of both total corporate loans and impaired loans increased. Although significant charge-offs resulted in a decrease in the overall outstanding balance of impaired loans as a percentage of total corporate loans, the deterioration in the asset quality of small- and medium-sized enterprise loans led to a worse overall mix of impaired loans, resulting in an increase in allowance for loan losses as a percentage of both total corporate loans and impaired loans.

Consumer Loans. We establish allowances for loan losses for consumer loans (including credit card receivables) based on historical losses as well as delinquencies and changes in underwriting and credit monitoring policies. We also analyze government economic data when considering consumer bankruptcies and delinquency rates as well as the build-up of consumer debt in Korea. The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	As of December 31,		
	2008	2009	2010
Non-performing loans as a percentage of total consumer loans	0.3%	0.3%	0.4%
Allowance for loan losses as a percentage of total consumer loans	0.5	0.6	0.6
Allowance for loan losses as a percentage of non-performing consumer loans	17.2	19.7	11.0

During 2010, non-performing consumer loans as a percentage of total consumer loans increased due to growth in our non-performing loans, which outpaced the growth in our consumer loans. However, an improvement in the asset quality of our existing non-performing consumer loans led to a better overall mix of non-performing consumer loans, which caused the level of allowance for loan losses as a percentage of non-performing consumer loans to decrease and the level of allowance for loan losses as a percentage of total consumer loans to remain relatively constant despite an increase in non-performing loans.

During 2009, non-performing consumer loans as a percentage of total consumer loans remained relatively constant. However, a deterioration in the asset quality of our existing non-performing consumer loans led to a worse overall mix of non-performing consumer loans, which caused the level of allowance for loan losses as a percentage of both total consumer loans and non-performing consumer loans to increase.

Non-Interest Income

The following table shows, for the periods indicated, the components of our non-interest income:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Credit card merchant fees	(Won)1,034	(Won)1,090	(Won)1,191	5.4%	9.3%
Other fees and commission income (excluding credit card merchant fees)	1,347	1,260	1,214	(6.5)	(3.7)
Net trading revenue	104	165	398	58.7	141.2
Trust fees, net	165	189	213	14.5	12.7
Net gain (loss) on investments	90	267	(27)	196.7	(110.1)
Other non-interest income	212	542	374	155.7	(31.0)
Total non-interest income	(Won)2,952	(Won)3,513	(Won)3,363	19.0	(4.3)

Comparison of 2010 to 2009

Non-interest income decreased 4.3% from (Won)3,513 billion in 2009 to (Won)3,363 billion in 2010. This decrease was attributable primarily to:

- a change from a net gain on investments of (Won)267 billion in 2009 to a net loss on investments of (Won)27 billion in 2010; and
- a (Won)168 billion decrease in other non-interest income from (Won)542 billion in 2009 to (Won)374 billion in 2010.

The 110.1% decrease in net gain on investments was attributable mainly to a (Won)126 billion increase in impairment loss on our investment in JSC Bank CenterCredit, a Kazakhstan bank. See “Item 4B. Business Overview—Capital Markets Activities and International Banking—International Banking.”

Other non-interest income consists mainly of gains on hedge activities, recovery on non-performing loans that were written off and gains on sales of loans. The 31.0% decrease in other non-interest income was attributable principally to a (Won)195 billion decrease in gains on hedge activities. However, such decrease was more than offset by a corresponding decrease in losses on hedge activities, which are recorded as other non-interest expense.

These decreases were partially offset by a (Won)233 billion increase in net trading revenue from (Won)165 billion in 2009 to (Won)398 billion in 2010. Net trading revenue consists of net realized and unrealized gains on securities, foreign exchange spot contracts and derivatives in our trading portfolio. The 141.2% increase in net trading revenue mainly reflected an increase in net gains on derivatives trading.

Comparison of 2009 to 2008

Non-interest income increased 19.0% from (Won)2,952 billion in 2008 to (Won)3,513 billion in 2009. This increase was attributable primarily to:

- a (Won)330 billion increase in other non-interest income from (Won)212 billion in 2008 to (Won)542 billion in 2009; and
- a (Won)177 billion increase in net gain on investments from (Won)90 billion in 2008 to (Won)267 billion in 2009.

The 155.7% increase in other non-interest income was attributable principally to a (Won)246 billion increase in gains on hedge activities. However, such increase was mostly offset by a corresponding increase in losses on hedge activities, which is recorded as other non-interest expense.

The 196.7% increase in net gain on investments was attributable mainly to an increase in gains on disposal of investment securities, principally gains from the disposal of our shares in Hyundai Engineering and Construction Co., Ltd. in the first half of 2009.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Salaries and employee benefits	(Won)2,335	(Won)2,218	(Won)2,782	(5.0)%	25.4%
Other administrative expenses	875	857	920	(2.1)	7.4
Other fees and commissions	827	870	898	5.2	3.2
Depreciation and amortization	407	431	360	5.9	(16.5)
Credit card fees	374	417	556	11.5	33.3
Other non-interest expenses	503	949	633	88.7	(33.3)
Total non-interest expense	(Won)5,321	(Won)5,742	(Won)6,149	7.9	7.1

Comparison of 2010 to 2009

Non-interest expense increased 7.1% from (Won)5,742 billion in 2009 to (Won)6,149 billion in 2010. This increase was primarily due to:

- a (Won)564 billion increase in salaries and employee benefits from (Won)2,218 billion in 2009 to (Won)2,782 billion in 2010; and
- a (Won)139 billion increase in credit card fees from (Won)417 billion in 2009 to (Won)556 billion in 2010.

The 25.4% increase in salaries and employee benefits was due mainly to special termination benefits paid in connection with our voluntary early retirement program in the fourth quarter of 2010.

The 33.3% increase in credit card fees was primarily due to increased marketing costs in connection with our efforts to expand our credit card operations.

These increases were partially offset by a (Won)316 billion decrease in other non-interest expenses from (Won)949 billion in 2009 to (Won)633 billion 2010. Other non-interest expenses include losses on hedge activities, provision for other losses, losses on sales of loans, losses on the disposal of premises and equipment, tax expenses other than income tax, insurance expense, donations and penalties. The 33.3% decrease in other non-interest expenses was attributable principally to a (Won)213 billion decrease in losses on hedge activities, as well as a (Won)115 billion decrease in provision for other losses. The decrease in losses on hedge activities, however, was substantially offset by a corresponding decrease in gains on hedge activities, which are recorded as other non-interest income.

Comparison of 2009 to 2008

Non-interest expense increased 7.9% from (Won)5,321 billion in 2008 to (Won)5,742 billion in 2009. This increase was primarily due to a (Won)446 billion increase in other non-interest expenses, which was partially offset by a (Won)117 billion decrease in salaries and employee benefits.

The 88.7% increase in other non-interest expenses was attributable principally to a (Won)236 billion increase in losses on hedge activities, as well as a (Won)188 billion increase in provision for other losses. The increase in losses on hedge activities, however, was more than offset by a corresponding increase in gains on hedge activities, which is recorded as other non-interest income.

The 5.0% decrease in salaries and employee benefits was due mainly to a decrease in special termination benefits paid in connection with our voluntary early retirement program, which reflected a decrease in the number of employees who accepted early retirement in 2009 compared to 2008.

Income Tax Expense

Comparison of 2010 to 2009

Income tax expense increased 46.9% from (Won)207 billion in 2009 to (Won)304 billion in 2010. We recognized higher income tax expense in 2010 despite recording a loss before income tax expense of (Won)288 billion (compared to income before income tax expense of (Won)926 billion in 2009), primarily due to a change from (Won)15 billion of tax benefit recognized under ASC 740 in 2009 to (Won)379 billion of tax expense recognized under ASC 740 in 2010. Such change mainly reflected our derecognition of (Won)410 billion of tax benefits in 2010 due to unfavorable developments in a pending lawsuit against the National Tax Service of Korea for recovery of (Won)482 billion of additional income taxes we paid in 2007. See “Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings” and Note 25 of the notes to our consolidated financial statements. The statutory tax rate applicable to us was 24.2% in 2009 and 2010.

Comparison of 2009 to 2008

Income tax expense decreased 54.4% from (Won)454 billion in 2008 to (Won)207 billion in 2009 primarily as a result of a decrease in income before income tax expense from 2008 to 2009, as well as a decrease in the statutory tax rate applicable to us. The statutory tax rate applicable to us decreased from approximately 27.5% in 2008 to approximately 24.2% in 2009. Our effective tax rate was 25.4% in 2008 and 22.4% in 2009.

Net Income

As a result of the above, our net loss was (Won)593 billion in 2010, compared to net income of (Won)719 billion in 2009 and (Won)1,333 billion in 2008.

Results under Korean GAAP by Principal Business Segment

We are organized into four major business segments: retail banking, credit card operations, corporate banking and capital markets. The following discussion is based upon our internal management account information, prepared based on Korean GAAP. The income statement data presented below for the year ended December 31, 2008 have been calculated using (i) the consolidated income statement data of Kookmin Bank for the period between January 1, 2008 and June 30, 2008 (for which consolidated net income was (Won)1,263 billion under Korean GAAP), and (ii) our consolidated income statement data for the period between September 29, 2008 and December 31, 2008 (for which consolidated net income was (Won)610 billion under Korean GAAP), which includes the results of Kookmin Bank and its subsidiaries from July 1, 2008 to September 28, 2008 because the acquisition cost of Kookmin Bank and its subsidiaries in connection with the comprehensive stock transfer pursuant to which we were established was determined as the net asset amount of Kookmin Bank and its subsidiaries as of June 30, 2008 based on Korean GAAP.

The following table shows, for the periods indicated, our results of operation by segment based on this information:

	Net Income ⁽¹⁾			Total Revenue		
	Year Ended December 31,			Year Ended December 31,		
	2008	2009	2010	2008	2009	2010
	(in billions of Won)					
Retail banking	(Won)1,247	(Won) 844	(Won) 478	(Won)13,221	(Won)10,768	(Won) 9,735
Credit card operations	350	454	425	2,421	2,559	2,551
Corporate banking	(146)	(35)	(574)	10,795	9,117	8,192
Capital markets	86	83	(62)	35,060	19,509	11,047
Other	668	(143)	(72)	4,345	2,863	4,128
Total ⁽²⁾	<u>(Won)2,205</u>	<u>(Won)1,203</u>	<u>(Won) 195</u>	<u>(Won)65,842</u>	<u>(Won)44,816</u>	<u>(Won)35,653</u>

⁽¹⁾ After deduction of income tax allocated proportionately among each segment.

⁽²⁾ Prior to elimination for consolidation, inter-segment transactions and certain differences in classification under our management reporting system.

Retail Banking

Our retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Income statement data:					
Interest income	(Won)12,225	(Won)9,890	(Won)9,018	(19.1)%	(8.8)%
Interest expense	9,257	7,450	6,720	(19.5)	(9.8)
Provision for credit losses	203	264	301	30.0	14.0
Non-interest income	996	878	718	(11.8)	(18.2)
Non-interest expense including depreciation and amortization	2,042	1,890	2,084	(7.4)	10.3
Net income before tax	1,719	1,164	631	(32.3)	(45.8)
Income tax ⁽¹⁾	472	320	153	(32.2)	(52.2)
Net income	<u>(Won) 1,247</u>	<u>(Won) 844</u>	<u>(Won) 478</u>	<u>(32.3)</u>	<u>(43.4)</u>

⁽¹⁾ Portion of income tax allocated to this segment based on income before tax.

Comparison of 2010 to 2009

Our net income before tax for this segment decreased 45.8% from (Won)1,164 billion in 2009 to (Won)631 billion in 2010.

Interest income from our retail banking activities decreased 8.8% from (Won)9,890 billion in 2009 to (Won)9,018 billion in 2010. This decrease was primarily due to a decrease in average interest rates in respect of retail loans from 5.29% in 2009 to 5.25% in 2010, principally as a result of the lower interest rate environment in Korea in 2010, and a 1.3% decrease in the average volume of retail loans from (Won)98,018 billion in 2009 to (Won)96,770 billion in 2010, reflecting a decrease in demand for such loans, in particular for mortgage and home equity loans.

Our largest and most important funding source is deposits from retail customers, which represents more than half of our total deposits. Interest expense in the retail banking segment decreased 9.8% from (Won)7,450 billion in

2009 to (Won)6,720 billion in 2010, due primarily to a decrease in average rates on deposit and savings products from 3.24% in 2009 to 2.58% in 2010, the effect of which was partially offset by a 1.8% increase in the average volume of deposit and savings products from (Won)93,866 billion in 2009 to (Won)95,564 billion in 2010.

Provision for credit losses on retail loans increased 14.0% from (Won)264 billion in 2009 to (Won)301 billion in 2010, reflecting increases in delinquencies and non-performing loans in our retail loan portfolio due to the adverse economic conditions in Korea, as well as an increase in the outstanding volume of our retail loans.

Non-interest income decreased 18.2% from (Won)878 billion in 2009 to (Won)718 billion in 2010, primarily due to a decrease in fees from sales of beneficiary certificates.

Non-interest expense increased 10.3% from (Won)1,890 billion in 2009 to (Won)2,084 billion in 2010, mainly as a result of increased labor costs in this segment due mainly to special termination benefits paid in connection with our voluntary early retirement program in the fourth quarter of 2010.

Comparison of 2009 to 2008

Our net income before tax for this segment decreased 32.3% from (Won)1,719 billion in 2008 to (Won)1,164 billion in 2009.

Interest income from our retail banking activities decreased 19.1% from (Won)12,225 billion in 2008 to (Won)9,890 billion in 2009. This decrease was primarily due to a decrease in average interest rates in respect of retail loans from 7.27% in 2008 to 5.29% in 2009, principally as a result of the lower interest rate environment in Korea in 2009, the effect of which was partially offset by a 4.5% increase in the average volume of retail loans from (Won)93,781 billion in 2008 to (Won)98,018 billion in 2009, reflecting an increase in demand for such loans, in particular for mortgage and home equity loans.

Interest expense in the retail banking segment decreased 19.5% from (Won)9,257 billion in 2008 to (Won)7,450 billion in 2009, due primarily to a decrease in average rates on deposit and savings products from 3.73% in 2008 to 3.24% in 2009, the effect of which was partially offset by a 5.5% increase in the average volume of deposit and savings products from (Won)88,953 billion in 2008 to (Won)93,866 billion in 2009.

Provision for credit losses on retail loans increased 30.0% from (Won)203 billion in 2008 to (Won)264 billion in 2009, reflecting increases in delinquencies and non-performing loans in our retail loan portfolio due to the adverse economic conditions in Korea, as well as an increase in the outstanding volume of our retail loans.

Non-interest income decreased 11.8% from (Won)996 billion in 2008 to (Won)878 billion in 2009, primarily due to a decrease in fees from sales of beneficiary certificates.

Non-interest expense decreased 7.4% from (Won)2,042 billion in 2008 to (Won)1,890 billion in 2009, mainly as a result of decreased labor costs in this segment.

Credit Card Operations

Our credit card segment handles our credit card activities. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Income statement data:					
Interest income	(Won)2,115	(Won)2,288	(Won)2,230	8.2%	(2.5)%
Interest expense	615	464	429	(24.6)	(7.5)
Provision for credit losses	98	266	115	171.4	(56.8)
Non-interest income	306	271	321	(11.4)	18.5
Non-interest expense including depreciation and amortization	1,225	1,203	1,447	(1.8)	20.3
Net income before tax	483	626	560	29.6	(10.5)
Income tax ⁽¹⁾	133	172	135	29.3	(21.5)
Net income	(Won) 350	(Won) 454	(Won) 425	29.7	(6.4)

⁽¹⁾ Portion of income tax allocated to this segment based on income before tax.

Comparison of 2010 to 2009

Our net income before tax for this segment decreased 10.5% from (Won)626 billion in 2009 to (Won)560 billion in 2010.

Interest income from our credit card operations decreased 2.5% from (Won)2,288 billion in 2009 to (Won)2,230 billion in 2010. This decrease was primarily due to a decrease in the average interest rates in respect of our credit card receivables from 22.20% in 2009 to 20.35% in 2010, which was partially offset by a 4.7% increase in the average volume of credit card receivables from (Won) 11,365 billion in 2009 to (Won)11,901 billion in 2010.

Interest expense decreased 7.5% from (Won)464 billion in 2009 to (Won)429 billion in 2010 principally due to a decrease in the average interest rates of inter-segment borrowings in line with the lower interest rate environment in Korea, the effect of which was partially offset by an increase in the average volume of such borrowings to support our credit card operations.

Provision for credit losses decreased 56.8% from (Won)266 billion in 2009 to (Won)115 billion in 2010. This decrease was primarily the result of an improvement in the overall asset quality of our credit card portfolio due mainly to our application of more stringent standards in issuing new credit cards.

Non-interest income increased 18.5% from (Won)271 billion in 2009 to (Won)321 billion in 2010. This increase was principally attributable to an increase in merchant fees, as well as other credit card fees.

Non-interest expense increased 20.3% from (Won)1,203 billion in 2009 to (Won)1,447 billion in 2010, primarily as a result of increased labor costs in this segment due mainly to special termination benefits paid in connection with our voluntary early retirement program in the fourth quarter of 2010, as well as an increase in marketing and related expenses.

Comparison of 2009 to 2008

Our net income before tax for this segment increased 29.6% from (Won)483 billion in 2008 to (Won)626 billion in 2009.

Interest income from our credit card operations increased 8.2% from (Won)2,115 billion in 2008 to (Won)2,288 billion in 2009. This increase was primarily due to a 4.1% increase in the average volume of our credit card receivables from (Won)10,917 billion in 2008 to (Won)11,365 billion in 2009, which reflected our continuing marketing efforts to procure new credit card subscribers, the effect of which was enhanced by an increase in the average interest rates in respect of such outstanding balances from 21.70% in 2008 to 22.20% in 2009.

Interest expense decreased 24.6% from (Won)615 billion in 2008 to (Won)464 billion in 2009 principally due to a decrease in the average interest rates of inter-segment borrowings in line with the lower interest rate environment in Korea, the effect of which was partially offset by an increase in the average volume of such borrowings to support our credit card operations.

Provision for credit losses increased 171.4% from (Won)98 billion in 2008 to (Won)266 billion in 2009. This increase was primarily the result of a deterioration in the overall asset quality of our credit card portfolio due to the adverse economic conditions in Korea.

Non-interest income decreased 11.4% from (Won)306 billion in 2008 to (Won)271 billion in 2009. This decrease was principally attributable to gains from disposal of our shares of Visa Inc. and Mastercard Inc. in 2008, which were not repeated in 2009.

Non-interest expense decreased 1.8% from (Won)1,225 billion in 2008 to (Won)1,203 billion in 2009, primarily due to a decrease in marketing expenses resulting from our cost-cutting efforts in 2009.

Corporate Banking

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in Won and foreign currencies and foreign currency activities. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Income statement data:					
Interest income	(Won)9,551	(Won)8,379	(Won)7,836	(12.3)%	(6.5)%
Interest expense	8,207	6,557	5,835	(20.1)	(11.0)
Provision for credit losses	1,351	1,392	2,202	3.0	58.2
Non-interest income	1,244	739	356	(40.6)	(51.8)
Non-interest expense including depreciation and amortization	1,439	1,218	912	(15.4)	(25.1)
Net income (loss) before tax	(202)	(49)	(757)	(75.7)	1,444.9
Income tax ⁽¹⁾	(56)	(14)	(183)	(75.0)	1,207.1
Net income (loss)	<u>(Won) (146)</u>	<u>(Won) (35)</u>	<u>(Won) (574)</u>	(76.0)	1,540.0

⁽¹⁾ Portion of income tax allocated to this segment based on income before tax.

Comparison of 2010 to 2009

Our net loss before tax for this segment increased 1,444.9% from (Won)49 billion in 2009 to (Won)757 billion in 2010.

Interest income from our corporate banking activities decreased 6.5% from (Won)8,379 billion in 2009 to (Won)7,836 billion in 2010. This decrease was primarily due to a 3.0% decrease in the average volume of corporate loans from (Won)80,400 billion in 2009 to (Won)78,004 billion in 2010, as well as a decrease in average interest rates in respect of corporate loans from 5.99% in 2009 to 5.83% in 2010, principally as a result of the lower interest rate environment in Korea in 2010.

Interest expense decreased 11.0% from (Won)6,557 billion in 2009 to (Won)5,835 billion in 2010. This decrease was primarily due to a decrease in the average interest rates on inter-segment borrowings in line with the lower interest rate environment, as well as a decrease in the average volume of such borrowings to support our corporate loans.

Provision for credit losses on corporate loans increased 58.2% from (Won)1,392 billion in 2009 to (Won)2,202 billion in 2010, primarily as a result of increases in delinquencies and non-performing loans in our corporate loan portfolio, in particular loans to the construction and shipbuilding sectors.

Non-interest income decreased 51.8% from (Won)739 billion in 2009 to (Won)356 billion in 2010. This decrease was principally due to a decrease in gain on foreign currency transactions, which mainly reflected reduced exchange rate volatility and transaction volume.

Non-interest expense decreased 25.1% from (Won)1,218 billion in 2009 to (Won)912 billion in 2010, principally as a result of a decrease in loss on foreign exchange transactions, which mainly reflected reduced exchange rate volatility and transaction volume.

Comparison of 2009 to 2008

Our net loss before tax for this segment decreased 75.7% from (Won)202 billion in 2008 to (Won)49 billion in 2009.

Interest income from our corporate banking activities decreased 12.3% from (Won)9,551 billion in 2008 to (Won)8,379 billion in 2009. This decrease was primarily due to a decrease in average interest rates on corporate loans, reflecting the lower interest rate environment in Korea in 2009, the effect of which was partially offset by a 10.6% increase in the average volume of corporate loans from (Won)72,683 billion in 2008 to (Won)80,400 billion in 2009, mainly as a result of increased lending to small- and medium-sized enterprises primarily due to policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support to small- and medium-sized enterprises.

Interest expense decreased 20.1% from (Won)8,207 billion in 2008 to (Won)6,557 billion in 2009. This decrease was primarily due to a decrease in the average interest rates on inter-segment borrowings in line with the lower interest rate environment, the effect of which was partially offset by an increase in the average volume of such borrowings to support our corporate lending growth.

Provision for credit losses on corporate loans increased 3.0% from (Won)1,351 billion in 2008 to (Won)1,392 billion in 2009, primarily as a result of increases in delinquencies and non-performing loans in our corporate loan portfolio, in particular loans to small- and medium-sized enterprises due to the adverse economic conditions in Korea, as well as an increase in corporate lending volume.

Non-interest income decreased 40.6% from (Won)1,244 billion in 2008 to (Won)739 billion in 2009. This decrease was mainly due to a decrease in gain on foreign currency transactions, which mainly reflected reduced exchange rate volatility and transaction volume.

Non-interest expense decreased 15.4% from (Won)1,439 billion in 2008 to (Won)1,218 billion in 2009, principally as a result of a decrease in loss on foreign exchange transactions, which mainly reflected reduced exchange rate volatility and transaction volume.

Capital Markets

Our capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009 (in billions of Won)	2010	2009/2008 (% Change)	2010/2009
Income statement data:					
Interest income	(Won) 4,353	(Won) 3,846	(Won)3,353	(11.6)%	(12.8)%
Interest expense	4,205	3,702	3,431	(12.0)	(7.3)
Provision for credit losses	13	53	—	307.7	—
Non-interest income	30,707	15,663	7,694	(49.0)	(50.9)
Non-interest expense including depreciation and amortization	30,724	15,640	7,698	(49.1)	(50.8)
Net income (loss) before tax	118	114	(82)	(3.4)	(171.9)
Income tax ⁽¹⁾	32	31	(20)	(3.1)	(164.5)
Net income (loss)	(Won) 86	(Won) 83	(Won) (62)	(3.5)	(174.7)

⁽¹⁾ Portion of income tax allocated to this segment based on income before tax.

Comparison of 2010 to 2009

Our net income before tax for this segment changed from net income of (Won)114 billion in 2009 to a net loss of (Won)82 billion in 2010.

Interest income decreased 12.8% from (Won)3,846 billion in 2009 to (Won)3,353 billion in 2010, primarily due to a decrease in the average volume of inter-segment lending from this segment to other segments, as well as a decrease in the average interest rates on such inter-segment lending, which reflected the lower interest rate environment in Korea in 2010.

Interest expense decreased 7.3% from (Won)3,702 billion in 2009 to (Won)3,431 billion in 2010, primarily due to a decrease in interest expense relating to long-term debt, which reflected the lower interest rate environment, the effect of which was enhanced by a decrease in the average volume of such debt mainly as a result of our decreased use of long-term debt to meet our funding needs.

Non-interest income decreased 50.9% from (Won)15,663 billion in 2009 to (Won)7,694 billion in 2010, primarily due to a 37.4% decrease in revenues and valuation gains on derivatives from (Won)11,158 billion in 2009 to (Won)6,990 billion in 2010, which resulted mainly from reduced foreign exchange and interest rate volatility and transaction volume.

Non-interest expense decreased 50.8% from (Won)15,640 billion in 2009 to (Won)7,698 billion in 2010, primarily due to a 22.6% decrease in losses (including valuation losses) on derivatives from (Won)9,027 billion in 2009 to (Won)6,984 billion in 2010, which resulted mainly from reduced foreign exchange and interest rate volatility and transaction volume.

Comparison of 2009 to 2008

Our net income before tax for this segment decreased 3.4% from (Won)118 billion in 2008 to (Won)114 billion in 2009.

Interest income decreased 11.6% from (Won)4,353 billion in 2008 to (Won)3,846 billion in 2009, primarily due to a decrease in the average interest rates on our investment and trading securities, which reflected the lower interest

rate environment in Korea in 2009. This decrease was partially offset by an increase in the average volume of our investment and trading securities, which mainly reflected our increased purchases of Korean treasury securities and debt securities issued by government agencies and financial institutions.

Interest expense decreased 12.0% from (Won)4,205 billion in 2008 to (Won)3,702 billion in 2009, primarily due to a decrease in interest expense relating to borrowings in both Won and foreign currencies, which reflected the lower interest rate environment, the effect of which was partially offset by an increase in the average volume of our long-term debt mainly as a result of our increased funding needs.

Non-interest income decreased 49.0% from (Won)30,707 billion in 2008 to (Won)15,663 billion in 2009, primarily due to a 53.3% decrease in revenues and valuation gains on derivatives from (Won)23,888 billion in 2008 to (Won)11,158 billion in 2009, which resulted mainly from reduced foreign exchange and interest rate volatility and transaction volume.

Non-interest expense decreased 49.1% from (Won)30,724 billion in 2008 to (Won)15,640 billion in 2009, primarily due to a 61.8% decrease in losses (including valuation losses) on derivatives from (Won)23,636 billion in 2008 to (Won)9,027 billion in 2009, which resulted mainly from reduced foreign exchange and interest rate volatility and transaction volume.

Other

“Other” includes our “back office” administrative operations, operations of our consolidated subsidiaries other than Kookmin Bank (including our guaranteed trust accounts), certain income or expenses related to our inter-segment transactions and other income or expenses (including severance benefits and certain gains or losses on foreign exchange spot contracts) that cannot be categorized in other segments. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Year Ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in billions of Won)			(% Change)	
Income statement data					
Interest income	(Won)1,385	(Won) 136	(Won)1,067	(90.2)%	684.6%
Interest expense	564	593	518	5.1	(12.6)
Provision for credit losses	163	324	70	98.8	(78.4)
Non-interest income	2,960	2,727	3,061	(7.9)	12.2
Non-interest expense including depreciation and amortization	2,855	2,554	3,764	(10.5)	47.4
Net income (loss) before tax	763	(608)	(224)	N/M ⁽²⁾	(63.2)
Income tax ⁽¹⁾	95	(465)	(152)	N/M ⁽²⁾	(67.3)
Net income (loss)	(Won) 668	(Won) (143)	(Won) (72)	N/M ⁽²⁾	(49.7)

⁽¹⁾ Portion of income tax allocated to this segment based on income before tax.

Comparison of 2010 to 2009

Our net loss before tax for this segment decreased 63.2% from (Won)608 billion in 2009 to (Won)224 billion in 2010.

Interest income increased 684.6% from (Won)136 billion in 2009 to (Won)1,067 billion in 2010. This increase was primarily due to an increase in net interest income from inter-segment transactions attributable to this segment resulting from the later adjustment of interest rates on inter-segment interest bearing liabilities compared to interest rates on inter-segment interest earning assets in the context of the lower interest rate environment in 2009 and 2010.

Interest expense decreased 12.6% from (Won)593 billion in 2009 to (Won)518 billion in 2010 due mainly to the re-allocation of (Won)56 billion of interest expense on the covered bonds we issued in May 2009 from this segment to the capital markets segment.

Non-interest income increased 12.2% from (Won)2,727 billion in 2009 to (Won)3,061 billion in 2010 primarily due to an increase in gains on foreign exchange spot contracts that are attributable to this segment.

Non-interest expense increased 47.4% from (Won)2,554 billion in 2009 to (Won)3,764 billion in 2010 primarily due to an increase in losses on foreign exchange spot contracts that are attributable to this segment.

Comparison of 2009 to 2008

Our net income before tax for this segment changed from net income of (Won)763 billion in 2008 to a net loss of (Won)608 billion in 2009.

Interest income decreased 90.2% from (Won)1,385 billion in 2008 to (Won)136 billion in 2009. This decrease was primarily due to a decrease in net interest income from inter-segment transactions attributable to this segment resulting from the earlier adjustment of interest rates on inter-segment interest earning assets compared to interest rates on inter-segment interest bearing liabilities in the context of the lower interest rate environment in 2009.

Interest expense increased 5.1% from (Won)564 billion in 2008 to (Won)593 billion in 2009 due mainly to an increase in the average volume of secured borrowings attributable to this segment.

Non-interest income decreased 7.9% from (Won)2,960 billion in 2008 to (Won)2,727 billion in 2009 primarily due to a decrease in gains on our investments accounted for under the equity method.

Non-interest expense decreased 10.5% from (Won)2,855 billion in 2008 to (Won)2,554 billion in 2009 primarily due to a decrease in expenses relating to our "back office" administrative operations resulting from our cost-cutting efforts in 2009.

Item 5B. Liquidity and Capital Resources

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			% Change	
	2008	2009 (in billions of Won)	2010	2009/2008	2010/2009
Cash and cash equivalents	(Won) 3,073	(Won) 2,696	(Won) 3,867	(12.3)%	43.4%
Restricted cash	4,794	6,050	3,360	26.2	(44.5)
Interest-bearing deposits in other banks	235	467	987	98.7	111.4
Call loans and securities purchased under resale agreements	1,407	2,036	2,850	44.7	40.0
Trading assets	13,095	7,721	6,085	(41.0)	(21.2)
Investments ⁽¹⁾	29,209	33,245	33,911	13.8	2.0
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	75,140	74,611	74,608	(0.7)	0.0
Construction	10,052	8,097	6,422	(19.4)	(20.7)
Other commercial	2,951	2,178	2,350	(26.2)	7.9
Total commercial	88,143	84,886	83,380	(3.7)	(1.8)
Consumer:					
Credit cards	11,523	11,368	12,395	(1.3)	9.0
Mortgage and home equity	69,924	70,678	70,443	1.1	(0.3)
Other consumer	27,592	26,949	27,790	(2.3)	3.1
Total consumer	109,039	108,995	110,628	0.0	1.5
Total domestic	197,182	193,881	194,008	(1.7)	0.1
Foreign	2,455	2,344	2,487	(4.5)	6.1
Deferred origination costs	473	570	699	20.5	22.6
Less allowance for loan losses	(3,043)	(3,341)	(4,247)	9.8	27.1
Total loans	197,067	193,454	192,947	(1.8)	(0.3)
Due from customers on acceptances	2,063	1,895	1,878	(8.1)	(0.9)
Premises and equipment, net	1,775	1,617	1,478	(8.9)	(8.6)
Accrued interest and dividends receivable	1,124	1,029	957	(8.5)	(7.0)
Security deposits	1,428	1,406	1,402	(1.5)	(0.3)
Goodwill and other intangible assets	786	771	861	(1.9)	11.7
Other assets	2,271	1,468	1,169	(35.4)	(20.4)
Total assets	<u>(Won)258,327</u>	<u>(Won)253,855</u>	<u>(Won)251,752</u>	(1.7)	(0.8)

⁽¹⁾ Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

Comparison of 2010 to 2009

Our assets decreased 0.8% from (Won)253,855 billion as of December 31, 2009 to (Won)251,752 billion as of December 31, 2010, primarily due to decreases in restricted cash, construction loans and trading assets, the effects of which were partially offset by an increase cash and cash equivalents.

Restricted cash decreased 44.5% from (Won)6,050 billion as of December 31, 2009 to (Won)3,360 billion as of December 31, 2010.

Construction loans decreased 20.7% from (Won)8,097 billion as of December 31, 2009 to (Won)6,422 billion as of December 31, 2010. Our loans (net of loan loss allowances) decreased 0.3% from (Won)193,454 billion as of December 31, 2009 to (Won)192,947 billion as of December 31, 2010.

Trading assets decreased 21.2% from (Won)7,721 billion as of December 31, 2009 to (Won)6,085 billion as of December 31, 2010.

Cash and cash equivalents increased 43.4% from (Won)2,696 billion as of December 31, 2009 to (Won)3,867 billion as of December 31, 2010.

Comparison of 2009 to 2008

Our assets decreased 1.7% from (Won)258,327 billion as of December 31, 2008 to (Won)253,855 billion as of December 31, 2009, primarily due to decreases in trading assets and commercial loans, the effects of which were partially offset by increases in investments and restricted cash.

Our loans (net of loan loss allowances) decreased 1.8% from (Won)197,067 billion as of December 31, 2008 to (Won)193,454 billion as of December 31, 2009. Commercial loans decreased 3.7% from (Won)88,143 billion as of December 31, 2008 to (Won)84,886 billion as of December 31, 2009.

Trading assets decreased 41.0% from (Won)13,095 billion as of December 31, 2008 to (Won)7,721 billion as of December 31, 2009.

Investments increased 13.8% from (Won)29,209 billion as of December 31, 2008 to (Won)33,245 billion as of December 31, 2009. Restricted cash increased 26.2% from (Won)4,794 billion as of December 31, 2008 to (Won)6,050 billion as of December 31, 2009.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	As of December 31,			% Change	
	2008	2009 ⁽¹⁾	2010	2009/2008	2010/2009
	(in billions of Won)				
Deposits					
Interest bearing	(Won)155,263	(Won)166,079	(Won)176,846	7.0%	6.5%
Non-interest bearing	3,438	3,104	3,082	(9.7)	(0.7)
Call money	3,444	1,365	605	(60.4)	(55.7)
Trading liabilities	8,191	4,246	3,270	(48.2)	(23.0)
Acceptances outstanding	2,063	1,895	1,878	(8.1)	(0.9)
Other borrowed funds	10,527	8,176	8,775	(22.3)	7.3
Accrued interest payable	4,961	3,819	3,703	(23.0)	(3.0)
Secured borrowings	5,880	4,670	2,651	(20.6)	(43.2)
Long-term debt	45,148	39,570	30,080	(12.4)	(24.0)
Other liabilities	3,817	3,355	3,826	(12.1)	14.0
Total liabilities	242,732	236,279	234,716	(2.7)	(0.7)
Common stock	1,782	1,932	1,932	8.4	0.0
Additional paid-in capital	6,253	7,200	7,210	15.1	0.1
Other	7,560	8,407	7,855	11.2	(6.6)
Stockholders' equity	15,595	17,539	16,997	12.5	(3.1)
Noncontrolling interests ⁽¹⁾	—	37	39	N/M ⁽²⁾	5.4
Total equity	15,595	17,576	17,036	12.7	(3.1)
Total liabilities and equity	(Won)258,327	(Won)253,855	(Won)251,752	(1.7)%	(0.8)%

- ⁽¹⁾ On January 1, 2009, we adopted ASC 810-10-45-15. As a result, minority interests have been recharacterized as noncontrolling interests and reclassified as a component of equity. Corresponding items for prior periods have been restated accordingly.
- ⁽²⁾ N/M = not meaningful.

Comparison of 2010 to 2009

Our total liabilities decreased 0.7% from (Won)236,279 billion as of December 31, 2009 to (Won)234,716 billion as of December 31, 2010, principally due to decreases in long-term debt and secured borrowings, which were mostly offset by an increase in interest bearing deposits.

Long-term debt decreased 24.0% from (Won)39,570 billion as of December 31, 2009 to (Won)30,080 billion as of December 31, 2010.

Secured borrowings decreased 43.2% from (Won)4,670 billion as of December 31, 2009 to (Won)2,651 billion as of December 31, 2010.

Interest bearing deposits increased 6.5% from (Won)166,079 billion as of December 31, 2009 to (Won)176,846 billion as of December 31, 2010.

Our total equity decreased by 3.1% from (Won)17,576 billion as of December 31, 2009 to (Won)17,036 billion as of December 31, 2010. This decrease resulted primarily from a decrease in retained earnings due to our net loss in 2010.

Comparison of 2009 to 2008

Our total liabilities decreased 2.7% from (Won)242,732 billion as of December 31, 2008 to (Won)236,279 billion as of December 31, 2009, principally due to decreases in long-term debt, trading liabilities, other borrowed funds and call money, which were partially offset by an increase in interest bearing deposits.

Long term debt decreased 12.4% from (Won)45,148 billion as of December 31, 2008 to (Won)39,570 billion as of December 31, 2009.

Trading liabilities decreased 48.2% from (Won)8,191 billion as of December 31, 2008 to (Won)4,246 billion as of December 31, 2009.

Other borrowed funds decreased 22.3% from (Won)10,527 billion as of December 31, 2008 to (Won)8,176 billion as of December 31, 2009.

Call money decreased 60.4% from (Won)3,444 billion as of December 31, 2008 to (Won)1,365 billion as of December 31, 2009.

Interest bearing deposits increased 7.0% from (Won)155,263 billion as of December 31, 2008 to (Won)166,079 billion as of December 31, 2009.

Our total equity increased by 12.7% from (Won)15,595 billion as of December 31, 2008 to (Won)17,576 billion as of December 31, 2009. This increase resulted primarily from our issuance in September 2009 of 30,000,000 new shares of our common stock (including 2,775,585 new shares in the form of ADSs) at a subscription price of (Won)37,250 per share (and US\$29.95 per ADS), pursuant to a rights offering to our existing shareholders, as well as an increase in retained earnings due to our net income in 2009.

Liquidity

Our primary source of funding (which includes deposits, long-term debt, borrowings from the Bank of Korea and other short-term borrowings, secured borrowings and call money) has historically been and continues to be customer deposits. Deposits amounted to (Won)158,701 billion, (Won)169,183 and (Won)179,928 billion, as of December 31, 2008, 2009 and 2010, which represented approximately 70.9%, 75.9% and 81.0% of our total funding, respectively. We have been able to use customer deposits to finance our operations generally, including meeting a portion of our liquidity requirements. We also use cash and cash equivalents, payments on loans and sales of short-term securities to meet our liquidity needs. Other sources of liquidity available to us include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to (Won)13,971 billion, (Won)9,541 billion and (Won)9,380 billion, as of December 31, 2008, 2009 and 2010 and represented 6.3%, 4.3% and 4.2% of our total funding, respectively. These types of borrowings have maturities of less than one year. For a more detailed description of our funding sources, see “Item 4B. Business Overview—Funding.”

Although most of our customer deposits have maturities of less than one year or are payable on demand, our experience has been that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. See “Item 3D. Risk Factors—Risks relating to liquidity and capital management—Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.” In particular, we may increase our utilization of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating our positions in trading and investment securities and using the proceeds to fund parts of our operations, as necessary. In addition, we are seeking to increase our reliance on long-term funding sources such as secured borrowings (including asset securitizations), issuance of debentures and long-term borrowings.

The Financial Services Commission of Korea requires each financial holding company and bank in Korea to maintain specific Won and foreign currency liquidity ratios. These ratios require us and Kookmin Bank to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Liquidity” and “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity.”

We are exposed to liquidity risk arising from withdrawals of deposits and maturities of our borrowings, as well as the need to fund our lending, trading and investment activities and the management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Liquidity Risk Management.”

We are a financial holding company, and substantially all of our operations are in our subsidiaries. Accordingly, we rely on distributions from our subsidiaries, direct borrowings and issuances of debt and equity securities to fund our liquidity obligations. Following our establishment as a financial holding company in September 2008, we received aggregate dividends of (Won)98 billion from our subsidiaries in 2009 and (Won)95 billion from our subsidiaries in 2010. See “Item 3D. Risk Factors—Risks relating to our financial holding company structure and strategy.”

Contractual Cash Obligations

The following table sets forth our contractual cash obligations (excluding short-term borrowings) as of December 31, 2010.

	Payments due by period				
	Total	1 year or less	1-3 years (in billions of Won)	3-5 years	More than 5 years
Long-term debt obligations ⁽¹⁾⁽²⁾	(Won) 39,366	(Won) 15,008	(Won) 11,345	(Won) 6,102	(Won) 6,911
Secured borrowings ⁽²⁾⁽³⁾	2,371	217	217	1,300	637
Operating lease obligations ⁽⁴⁾	217	116	82	17	2
Capital lease obligations	—	—	—	—	—
Deposits ⁽⁵⁾⁽⁶⁾	124,696	116,921	6,107	1,031	637
Total	<u>(Won) 166,650</u>	<u>(Won) 132,262</u>	<u>(Won) 17,751</u>	<u>(Won) 8,450</u>	<u>(Won) 8,187</u>

- (1) Long-term debt includes senior debt and subordinated debt, as described in Note 17 to our consolidated financial statements.
- (2) Includes estimated future interest payments, which have been estimated using contractual interest rates and scheduled contractual maturities of the outstanding debt obligations and borrowings as of December 31, 2010. In order to calculate future interest payments on debt with floating rates, we used contractual interest rates as of December 31, 2010.
- (3) Excluding securities sold under repurchase agreements.
- (4) This line item is not included within our consolidated balance sheet.
- (5) Excluding demand deposits and savings deposits.
- (6) Includes estimated future interest payments, which have been estimated using the weighted average interest rates paid for 2010 for each deposit product category and their scheduled contractual maturities.

Commitments and Guarantees

The following table sets forth our commitments and guarantees as of December 31, 2010. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated balance sheet. Guarantees are recorded at their fair value at inception, which is amortized over the life of guarantees.

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years (in billions of Won)	3-5 Years	More Than 5 Years
Financial guarantees	(Won) 602	(Won) 596	(Won) 3	(Won) 2	(Won) 1
Performance guarantees	4,843	4,115	683	44	1
Liquidity facilities to special purpose entities ⁽¹⁾	1,111	396	715	—	—
Trust fund guarantees	2,955	694	327	390	1,544
Total	<u>(Won) 9,511</u>	<u>(Won) 5,801</u>	<u>(Won) 1,728</u>	<u>(Won) 436</u>	<u>(Won) 1,546</u>

- (1) Represents irrevocable commitments to provide contingent liquidity credit lines to special purpose entities for which we serve as the administrator. See Note 31 of the notes to our consolidated financial statements.

Capital Adequacy

The following discussion and the figures herein are based on the Korean GAAP statistics we prepared for regulatory reporting purposes in Korea. Kookmin Bank is subject to Financial Services Commission capital adequacy requirements applicable to Korean banks, which have been formulated based on, and are consistent in

all material respects with, the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework,” also known as Basel II, first published by the Basel Committee of Banking Supervision, Bank for International Settlements in 2004 and implemented in Korea beginning in 2008. Kookmin Bank is required to maintain a minimum ratio of total capital to risk-weighted assets, as determined by a specified formula, of 8.0%. See “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Capital Adequacy and Allowances.”

As of December 31, 2010, Kookmin Bank’s capital adequacy ratio was 13.44%, compared to 14.04% as of December 31, 2009 (in each case, calculated in accordance with Basel II). The decrease was primarily due to an increase in the amount of subordinated debt that no longer qualifies as Tier II capital.

As of December 31, 2009, Kookmin Bank’s capital adequacy ratio was 14.04%, compared to 13.18% as of December 31, 2008 (in each case, calculated in accordance with Basel II). This increase was primarily due to Kookmin Bank’s issuances of subordinated notes in the amount of (Won)1.0 trillion and hybrid Tier I securities in the amount of (Won)1.0 trillion, as well as a (Won)0.3 trillion increase in paid-in capital resulting from our purchase of new common shares issued by Kookmin Bank.

The following table sets forth a summary of Kookmin Bank’s capital and capital adequacy ratios as of December 31, 2008, 2009 and 2010.

	As of December 31,		
	2008	2009 ⁽¹⁾	2010 ⁽¹⁾
	(in billions of Won, except percentage)		
Tier I capital:	(Won) 15,302	(Won) 16,735	(Won) 16,865
Paid-in capital	2,182	2,482	2,482
Capital reserves	6,092	6,090	6,090
Retained earnings	8,486	9,125	9,047
Noncontrolling interests in consolidated subsidiaries	—	7	8
Others	(1,458)	(969)	(762)
Tier II capital:	5,024	4,973	3,936
Revaluation reserves	177	177	177
Allowance for credit losses ⁽²⁾	486	394	522
Hybrid debt	359	263	200
Subordinated debt ⁽³⁾	4,745	4,316	3,593
Valuation gain on investment securities	161	169	156
Others	(904)	(346)	(712)
Investment in non-consolidated equity investees ⁽⁴⁾	—	—	—
Subordinated notes from securitizations ⁽⁵⁾	—	—	—
Total core and supplementary capital	20,326	21,708	20,801
Risk-weighted assets ⁽⁶⁾	154,261	154,593	154,806
Credit risk:			
On-balance sheet	129,037	132,845	135,251
Off-balance sheet	9,999	7,081	5,492
Market risk	2,069	2,072	1,808
Operational risk	13,156	12,595	12,255
Capital adequacy ratio	13.18%	14.04%	13.44%
Tier I capital	9.92	10.82	10.89
Tier II capital	3.26	3.22	2.55

⁽¹⁾ Calculated in accordance with Basel II.

⁽²⁾ Reserves for possible credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.

⁽³⁾ Subordinated debt up to an amount equal to 50% of Tier I capital may be used in the calculation of Tier II capital.

- (4) Prior to 2008, equity investees engaged in banking and financial activities of which Kookmin Bank owned more than 15% were deducted from total capital. Beginning in 2008, such equity investees are deducted directly from Tier I and Tier II capital pursuant to the guidelines of the Financial Supervisory Service.
- (5) Prior to 2008, subordinated notes from securitizations were deducted from total capital. Beginning in 2008, such subordinated notes from securitizations are deducted directly from Tier I and Tier II capital pursuant to the guidelines of the Financial Supervisory Service.
- (6) Prior to the implementation of Basel II in 2008, risk-weighted assets were classified as credit risk-weighted assets and market risk-weighted assets. Beginning in 2008, under Basel II, risk-weighted assets are classified as credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.
- (7) Represents amounts net of credit risk-weighted assets with respect to our trading activities account.

Under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. Kookmin Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more risk-sensitive in assessing its credit risk capital requirements. In December 2007, the Financial Supervisory Service approved Kookmin Bank's internal ratings-based approach for credit risk, and Kookmin Bank became the first Korean bank permitted to use such internal ratings-based approach. For regulatory reporting purposes, Kookmin Bank has implemented its internal ratings-based approach for credit risk with respect to retail and small and medium-sized enterprise loans and asset-backed securities from January 2008, large corporate loans from June 2008 and retail SOHO loans from December 2008. Kookmin Bank plans to further implement its internal ratings-based approach to other classes of credit risk exposure on a phased rollout basis by the end of 2012 based on consultations with the Financial Supervisory Service and to implement its "Advanced Internal Ratings-based Approach" for credit risk for regulatory reporting purposes in the near future. A standardized approach is used in measuring credit risk for those classes of exposure for which Kookmin Bank's internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the government, public institutions and other banks) for which the internal ratings-based approach will not be applied. With respect to operational risk, Kookmin Bank implemented a standardized approach beginning in January 2008 and further implemented an "Advanced Measurement Approach" for regulatory reporting purposes beginning in January 2009.

While the implementation of Kookmin Bank's internal ratings-based approach in 2008 has increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Kookmin Bank's credit risk capital requirements in the future, which may require Kookmin Bank to either improve its asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. The timing and scope of implementation of Basel III in Korea remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us.

In addition, we, as a bank holding company, are required under the capital adequacy requirements of the Financial Services Commission to maintain a minimum consolidated capital adequacy ratio of 8.0%. "Consolidated capital adequacy ratio" is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with Financial Services Commission requirements that

have been formulated based on Bank of International Settlements standards. “Equity capital,” as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items (each as defined under the Regulation on the Supervision of Financial Holding Companies). “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The following table sets forth a summary of our consolidated capital adequacy ratio as of December 31, 2009 and 2010, based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31,	
	2009	2010
	(in billions of Won)	
Risk-weighted assets	(Won)182,664	(Won)183,078
Equity capital	24,360	23,948
Consolidated capital adequacy ratio	13.34%	13.08%

Recent Accounting Pronouncements

Elimination of Qualifying Special Purpose Entities (“QSPEs”) and Changes in the Consolidation Model for Variable Interest Entities (“VIEs”)

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to FASB Statement No.140.” This statement removed (1) the concept of a QSPE from ASC 860—Transfers and Servicing and (2) the exceptions from applying ASC 810—Consolidation to QSPEs. This statement amends ASC 860 to revise and clarify the derecognition requirements for transfers of financial assets and the initial measurement of beneficial interests that are received as proceeds by a transferor in connection with transfers of financial assets. This statement also requires additional disclosure about transfers of financial assets and a transferor’s continuing involvement with such transferred financial assets. We adopted this statement on January 1, 2010 on a prospective basis. Our adoption of this statement did not have a material impact on our consolidated financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46 (R).” This statement amends ASC 810 to require ongoing assessments to determine whether an entity is a VIE and whether an enterprise is the primary beneficiary of a VIE. This statement also amends the guidance for determining which enterprise, if any, is the primary beneficiary of a VIE by requiring the enterprise to initially perform a qualitative analysis to determine if the enterprise’s variable interest or interests give it a controlling financial interest. Consolidation is based on a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. If a company has control and the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE, then consolidation is required. This statement also requires additional disclosure about transfers of financial assets and a transferor’s continuing involvement with such transferred financial assets. We adopted this statement on January 1, 2010. Our adoption of this statement resulted in decreases, on a consolidated basis, in our shareholder’s equity of (Won)14,195 million (net-of-tax), total assets of (Won)84,282 million and total liabilities of (Won)70,087 million as of January 1, 2010.

In February 2010, the FASB issued Accounting Standard Update No. 2010-10, Consolidation (Topic 810), Amendments for Certain Investment Funds (ASU 2010-10). ASU 2010-10 provides a deferral of the requirement of ASC 810 for certain investment entities that have the attributes of entities subject to ASC 946 and registered money market funds as well as all other unregistered funds that operate in a similar manner as registered money market funds. Our management has determined that a majority of the investment vehicles that we manage are provided a deferral from the requirements of SFAS No. 167 because they meet the criteria for a deferral provided in ASU 2010-10. These vehicles continue to be evaluated under the requirements of ASC 810-10, prior to the implementation of the deferred requirements of ASC 810.

Additional Disclosures about Fair Value Measurements.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements." This statement amends ASC 820 and requires disclosing the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and description of the reasons for the transfers. This statement also clarifies existing disclosure requirements on the level of disaggregation and disclosures regarding inputs and valuation techniques. The disclosures are effective for reporting periods beginning after December 15, 2009. We adopted this statement as of January 1, 2010. The required disclosures are included in Note 29 to our consolidated financial statements. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 fair value measurements will be required for fiscal years beginning after December 15, 2010.

Scope Exception Related to Embedded Credit Derivatives

In March 2010, the FASB issued ASU 2010-11, "Scope Exception Related to Embedded Credit Derivatives." This statement amends ASC 815 and clarifies that certain embedded derivatives, such as those contained in certain securitizations, collateralized debt obligations and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separated fair value accounting. This statement allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. We adopted this statement on July 1, 2010. Our adoption of this statement had no impact on our consolidated financial condition, results of operations or cash flows.

Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset

In April 2010, the FASB issued ASU 2010-18, "Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset." As a result of the amendments, modifications of loans that are accounted for within a pool under Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity is required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This statement is effective for modifications of loans occurring in reporting periods ending on or after July 15, 2010. Our adoption of this statement had no impact on our consolidated financial condition, results of operations or cash flows.

Enhancing Disclosures about the Credit Quality of Financing Receivables

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivable." This statement amends ASC 310 and enhances disclosures about the credit quality of financing receivables and the allowance for credit losses. This statement defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. Our portfolio segments are commercial, consumer and credit cards loans. The classes in the commercial portfolio segment are commercial and industrial, construction, other commercial and foreign. The classes in the consumer portfolio segment are mortgage, home equity, other consumer and foreign. The credit card portfolio consists of only one class. Under this new accounting guidance, the allowance is presented by portfolio segment. The disclosures are effective for reporting periods ending on or after December 15, 2010 and are included in Note 10 to our consolidated financial statements. Additionally, the disclosures about activity that occurs during a reporting period are effective for reporting periods beginning on or after December 15, 2010. According to this statement, we must also provide supplemental information on the nature and extent of troubled debt restructurings. However, under ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," such disclosures regarding troubled debt restructurings have been deferred to coincide with a separate FASB troubled debt restructuring project, with an effective date in the second quarter of 2011.

Selected Financial Information under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of (Won)10 billion. Substantial control is deemed to exist when the investor is the largest stockholder and owns more than 30% of the investee's voting shares.

Under Korean GAAP, financial statements of our trust accounts on which we guarantee a fixed rate of return and/or the repayment of principal are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as part of our consolidated assets and liabilities, and revenues and expenses generated from such third-party assets are reflected in our consolidated statement of income. Activities between trusts and us are eliminated in consolidation.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Service.

Consolidated Income Statement Data under Korean GAAP

	Year Ended December 31,					2010 ⁽²⁾ (in millions of US\$, except per common share data)
	2006	2007	2008 ⁽¹⁾	2009	2010	
	(in billions of Won, except per common share data)					
Interest income	(Won)12,267	(Won)13,877	(Won)16,916	(Won)14,765	(Won)14,283	US\$ 12,633
Interest expense	5,392	6,798	9,510	8,352	7,045	6,231
Net interest income	6,875	7,079	7,406	6,413	7,238	6,402
Provision for possible loan losses	1,028	547	1,827	2,299	2,747	2,430
Net interest income after provision for possible loan losses	5,847	6,532	5,579	4,114	4,491	3,972
Non-interest revenue ⁽³⁾⁽⁵⁾	8,052	8,277	28,779	15,681	11,299	9,994
Non-interest expense ⁽⁴⁾⁽⁵⁾	10,649	10,529	32,016	19,144	15,597	13,796
Operating income	3,250	4,280	2,342	651	193	170
Non-operating (loss) income, net ⁽⁵⁾	174	264	374	(99)	(174)	(154)
Net (loss) income before income tax expense	3,424	4,544	2,716	552	19	16
Income tax (benefit) expense ⁽⁵⁾	957	1,782	842	25	(81)	(72)
Net income before acquisition of subsidiary	—	—	1	—	—	—
Net income ⁽⁶⁾	(Won) 2,467	(Won) 2,762	(Won) 1,873	(Won) 527	(Won) 100	US\$ 88
Stockholders' interests	2,458	2,757	1,873	539	88	78
Noncontrolling interests	9	5	—	(12)	12	10
Per common share data:						
Earnings per share-basic	(Won) 7,308	(Won) 8,197	(Won) 5,884	(Won) 1,659	(Won) 257	US\$ 0.23
Earnings per share-diluted	7,308	8,179	5,880	1,659	257	0.23
Cash dividends per common share ⁽⁷⁾	3,650	2,450	—	230	120	0.11

⁽¹⁾ Figures shown in the above table for the year ended December 31, 2008 represent (i) the consolidated income statement data of Kookmin Bank for the period between January 1, 2008 and June 30, 2008 (for which consolidated net income was (Won)1,263 billion under Korean GAAP), and (ii) our consolidated income statement data for the period between September 29, 2008 and December 31, 2008 (for which consolidated net income was (Won)610 billion under Korean GAAP), which includes the results of Kookmin Bank and its subsidiaries from July 1, 2008 to September 28, 2008 because the acquisition cost of Kookmin Bank and its subsidiaries in connection with the comprehensive stock transfer pursuant to which we were established was determined as the net asset amount of Kookmin Bank and its subsidiaries as of June 30, 2008 based on Korean GAAP.

⁽²⁾ Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.6 to US\$1.00, the noon buying rate in effect on December 31, 2010 as quoted by the Federal Reserve Bank of New York in the United States.

⁽³⁾ Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.

⁽⁴⁾ Non-interest expense is composed of fees and commissions paid or payable, general and administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

⁽⁵⁾ Commencing with the year ended December 31, 2007, we reclassified a number of line items in our income statement, including gains or losses on disposal of available-for-sale securities and sale of loans, which have been reclassified from non-operating (loss) income to non-interest (expense) revenue, and refund of a prior year's income tax and additional income tax paid for a prior year, which have been reclassified from non-operating (loss) income to income tax (benefit) expense. Certain income statement amounts for 2006 have been restated to reflect such reclassification.

⁽⁶⁾ Commencing with the year ended December 31, 2007, net income is presented as the sum of stockholders' interests and noncontrolling interests. In prior years, stockholders' interests were presented as net income. Corresponding amounts for 2006 have been restated to reflect such change.

⁽⁷⁾ Shown for the periods to which the dividends relate.

Consolidated Balance Sheet Data under Korean GAAP

	As of December 31,					
	2006	2007	2008 (in billions of Won)	2009	2010	2010 ⁽¹⁾ (in millions of US\$)
Cash and cash equivalents	(Won) 6,689	(Won) 6,727	(Won) 8,316	(Won) 9,769	(Won) 7,039	US\$ 6,226
Foreign exchange ⁽²⁾	—	—	—	—	—	—
Loans ⁽³⁾⁽⁴⁾⁽⁵⁾	152,383	174,235	202,407	198,930	200,827	177,629
Less:						
allowance for doubtful accounts	(2,365)	(2,505)	(3,477)	(3,532)	(4,282)	(3,788)
Trading securities ⁽⁶⁾	5,552	7,786	7,644	6,763	5,270	4,661
Investment securities ⁽⁶⁾	27,036	26,454	31,342	35,772	38,256	33,837
Premises and equipment, net	2,513	2,640	3,915	3,664	3,540	3,131
Other assets ⁽⁷⁾⁽⁸⁾	7,105	7,707	17,402	10,802	11,358	10,046
Total assets	(Won)198,913	(Won)223,044	(Won)267,549	(Won)262,168	(Won)262,008	US\$ 231,742
Deposits	133,297	142,101	162,210	172,440	184,667	163,335
Borrowings ⁽⁹⁾⁽¹⁰⁾	13,804	15,275	20,390	15,710	13,065	11,555
Debentures	24,983	34,895	43,106	38,783	29,550	26,137
Other liabilities ⁽¹¹⁾	11,701	14,666	25,781	17,124	16,286	14,405
Total liabilities	183,785	206,937	251,487	244,057	243,568	215,432
Total equity ⁽¹²⁾	15,128	16,107	16,062	18,111	18,440	16,310
Total liabilities and equity	(Won)198,913	(Won)223,044	(Won)267,549	(Won)262,168	(Won)262,008	US\$ 231,742

⁽¹⁾ Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.6 to US\$1.00, the noon buying rate in effect on December 31, 2010 as quoted by the Federal Reserve Bank of New York in the United States.

⁽²⁾ Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies and are included in cash and cash equivalents and loans, respectively. The amounts of foreign currency and bills bought in foreign currencies as of December 31, 2006 were (Won)151 billion and (Won)1,274 billion, respectively. As of December 31, 2007, the amounts were (Won)189 billion and (Won)1,628 billion, respectively. As of December 31, 2008, the amounts were (Won)273 billion and (Won)2,754 billion, respectively. As of December 31, 2009, the amounts were (Won)265 billion and (Won)2,060 billion, respectively. As of December 31, 2010, the amounts were (Won)292 billion and (Won)2,219 billion, respectively.

⁽³⁾ Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.

⁽⁴⁾ Credit card assets are included in loans. The amounts of credit card assets were (Won)8,667 billion, (Won)10,436 billion, (Won)11,526 billion, (Won)11,383 billion and (Won)12,416 billion, as of December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

⁽⁵⁾ Call loans are included in loans. The amounts of call loans at December 31, 2006, 2007, 2008, 2009 and 2010 were (Won)1,189 billion, (Won)1,621 billion, (Won)158 billion, (Won)447 billion and (Won)909 billion, respectively.

⁽⁶⁾ Under Korean GAAP, all debt securities and equity securities are accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.

⁽⁷⁾ Guarantees and acceptances for which the amounts were determined do not appear on the balance sheet but are recorded as an off-balance sheet item in the notes to our consolidated financial statements. The amounts of guarantees and acceptances at December 31, 2006, 2007, 2008, 2009 and 2010 were (Won)2,715 billion, (Won)5,300 billion, (Won)9,107 billion, (Won)8,337 billion and (Won)7,342 billion, respectively.

⁽⁸⁾ Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network). Leasehold deposits are recorded as other assets on the balance sheet. Accumulated depreciation is recorded as a deduction from premises and equipment.

- (9) Borrowings consist mainly of borrowings from the Bank of Korea, the Korean government and other banking institutions.
- (10) Call money is included in borrowings at December 31, 2006, 2007, 2008, 2009 and 2010. The balances of call money as of those dates were (Won)168 billion, (Won)794 billion, (Won)3,444 billion, (Won)1,365 billion and (Won)605 billion, respectively.
- (11) Under Korean GAAP, contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of allowance as of December 31, 2006, 2007, 2008, 2009 and 2010 were (Won)19 billion, (Won)37 billion, (Won)122 billion, (Won)139 billion and (Won)233 billion, respectively. These amounts are included in other liabilities.
- (12) Noncontrolling interests are included in total equity. The amounts of noncontrolling interests as of December 31, 2006, 2007, 2008, 2009 and 2010 were (Won)44 billion, (Won)44 billion, (Won)233 billion, (Won)260 billion and (Won)495 billion, respectively.

Consolidated Profitability and Other Ratios under Korean GAAP

	Year Ended December 31,				
	2006	2007	2008 ⁽¹⁾ (percentages)	2009	2010
Net income as a percentage of:					
Average total assets ⁽²⁾	1.27%	1.31%	0.75%	0.20%	0.04%
Average stockholders' equity ⁽²⁾	17.21	17.12	12.42	3.27	0.53
Dividend payout ratio ⁽³⁾	49.77	29.84	—	14.62	46.61
Net interest spread ⁽⁴⁾	3.69	3.39	2.98	2.50	2.86
Net interest margin ⁽⁵⁾	3.90	3.65	3.23	2.62	2.98
Efficiency ratio ⁽⁶⁾	71.70	71.11	92.62	97.52	99.90
Cost-to-average assets ratio ⁽⁷⁾	5.38	5.29	13.69	8.01	6.94
Fee income as a percentage of total income ⁽⁸⁾	6.69	7.02	3.36	4.75	5.63

- (1) Figures shown in the above table for the year ended December 31, 2008 have been calculated based on (i) the applicable consolidated financial data of Kookmin Bank under Korean GAAP for the period between January 1, 2008 and June 30, 2008 and (ii) our applicable consolidated financial data under Korean GAAP for the period between September 29, 2008 and December 31, 2008, which includes the results of Kookmin Bank and its subsidiaries from July 1, 2008 to September 28, 2008 because the acquisition cost of Kookmin Bank and its subsidiaries in connection with the comprehensive stock transfer pursuant to which we were established was determined as the net asset amount of Kookmin Bank and its subsidiaries as of June 30, 2008 based on Korean GAAP.
- (2) Average balances are based on (a) daily balances for our primary banking operations and (b) monthly or quarterly balances for our other operations.
- (3) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.
- (4) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
- (5) Net interest margin represents the ratio of net interest income to average interest earning assets.
- (6) Efficiency ratio represents the ratio of non-interest expense to the sum of net interest income and non-interest revenue.
- (7) Cost-to-average assets ratio represents the ratio of non-interest expense to average total assets.
- (8) Fee income represents income other than interest income and other operating income, and excludes fees and commissions classified in those categories under Korean GAAP.

Capital Ratios under Korean GAAP

	Year Ended December 31,				
	2006	2007	2008 (percentages)	2009	2010
Consolidated capital adequacy ratio of KB Financial Group ⁽¹⁾	—	—	11.73%	13.34%	13.08%
Capital adequacy ratios of Kookmin Bank					
Tier I capital adequacy ratio ⁽²⁾	10.07%	9.74%	9.92%	10.82%	10.89%
Tier II capital adequacy ratio ⁽²⁾	4.10	2.88	3.26	3.22	2.55%
Average stockholders' equity as a percentage of average total assets	7.37	7.63	6.06	6.09%	7.06%

⁽¹⁾ Under applicable guidelines of the Financial Services Commission, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8%. This computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See “—Financial Condition—Capital Adequacy.”

⁽²⁾ Kookmin Bank's capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Services Commission. The computation is based on its consolidated financial statements prepared in accordance with Korean GAAP. See “—Financial Condition—Capital Adequacy.”

Consolidated Credit Portfolio Ratios under Korean GAAP

	As of December 31,				
	2006	2007	2008 (in billions of Won, except percentages)	2009	2010
Non-performing loans ⁽¹⁾	(Won) 1,551	(Won) 1,297	(Won) 2,559	(Won) 2,380	(Won) 3,614
Non performing loans as a percentage of total loans	1.02%	0.74%	1.27%	1.20%	1.80%
Non performing loans as a percentage of total assets	0.78	0.58	0.96	0.91	1.38
Allowance for loan losses for non-performing loans as a percentage of non-performing loans	52.31	53.62	45.18	49.88	49.51
Total allowance for loan losses as a percentage of total loans	1.55	1.44	1.72	1.78	2.13
Non-performing credits as a percentage of total credits ⁽²⁾	1.00	0.71	1.24	1.17	1.90
Won loans as a percentage of Won deposits ⁽³⁾	103.01	119.40	126.92	117.49	96.16
Precautionary loans as a percentage of total loans	1.13	0.82	1.45	1.77	2.22
Precautionary and below loans as a percentage of total loans ⁽⁴⁾	2.15	1.56	2.71	2.97	4.02
Precautionary and below loans as a percentage of total assets ⁽⁴⁾	1.64	1.22	2.05	2.25	3.08
Allowance for loan losses for precautionary and below loans as a percentage of precautionary and below loans ⁽⁴⁾	31.03	31.20	28.83	28.37	30.12

⁽¹⁾ Non-performing loans are defined in accordance with regulatory guidance in Korea. See “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks.”

⁽²⁾ Credits include loans and confirmed guarantees and acceptances provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts. Loans, as defined for Korean GAAP purposes, include loans provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts.

⁽³⁾ Under Korean GAAP, Won loans do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower. Including these items, our ratios as of December 31, 2006, 2007, 2008, 2009 and 2010 would have been 117.65%, 134.40%, 140.44%, 128.98% and 106.00%, respectively.

⁽⁴⁾ As defined by the Financial Services Commission.

Reconciliation with Korean GAAP

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in Note 1 to our consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and total equity of the consolidated statements with Korean GAAP:

	As of and for the Year Ended December 31, 2010 (in millions of Won)
U.S. GAAP net income	(Won) (592,525)
1 Provision for credit losses	682,864
2 Deferred loan costs	(73,675)
3 Equity method investments	5,033
4 Securities and hedging derivatives accounting	(303,672)
5 Other loan sale accounting	68,865
6 Fixed assets	6,634
7 Merger with Korea Long Term Credit Bank	—
8 Reversal of amortization of present value discounts	21,344
9 Foreign currency translation	(21,825)
10 Merger with H&CB	(72,547)
11 Merger with Kookmin Credit Card	4,777
12 Consolidation of fund represented by the wholly owned beneficiary certificates	(21,165)
13 Acquisition of KB Investment & Securities	(22,789)
14 Others	33,765
Total of adjustments	307,609
Tax effect of adjustments	385,099
Korean GAAP net income	(Won) 100,183
U.S. GAAP total equity	(Won) 17,035,547
1 Provision for credit losses	(711,538)
2 Deferred loan costs	(415,179)
3 Equity method investments	(83,536)
4 Securities and hedging derivatives accounting	317,635
5 Other loan sale accounting	(447,103)
6 Fixed assets	1,200,456
7 Merger with Korea Long Term Credit Bank	363,551
8 Reversal of amortization of present value discounts	209,663
9 Foreign currency translation	2,213
10 Merger with H&CB	347,755
11 Merger with Kookmin Credit Card	(220,444)
12 Consolidation of fund represented by the wholly owned beneficiary certificates	(4,679)
13 Acquisition of KB Investment & Securities.	(66,264)
14 Others	616,860
Total of adjustments	1,109,390
Tax effect of adjustments	295,416
Korean GAAP total equity	(Won) 18,440,353

The following is a summary of the significant adjustments made to consolidated net income and total equity to reconcile the U.S. GAAP results with those under Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We established the U.S. GAAP loan loss allowance for impaired non-homogeneous loans based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair value of the collateral if the loan was collateral dependent or (3) observable market prices if available. For small balance homogeneous impaired loan portfolios and consumer loans, we established the allowance for the loan losses based on an evaluation of the historical performance of the loan portfolios. Allowance for loans that were not impaired was based principally on historical migration patterns. Other factors that management considered when establishing reserves for loans include, but were not limited to, global and local economic events, delinquencies, changes in underwriting and changes in credit monitoring policies. See "Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Provisioning Policy."

Prior to 2004 year-end, the allowance for loan losses under Korean GAAP was determined based on the classification guidelines promulgated by the Financial Services Commission ("FSC"), which require that the allowance should be equal to or greater than the allowance based on the minimum provisioning rate determined by the classification of the loan. Beginning with 2004 year-end, the allowance for loan losses under Korean GAAP has been determined at the larger of the allowance based on historical loss rates of loan portfolios or the one based on the loan classification guidelines of the FSC. For 2010 year-end, we used the allowance based on the FSC guidelines as it was greater than the one based on the historical loss rates. Our reserve under Korean GAAP was established based on the following percentages as of December 31, 2010:

	2010		
	Corporate Loans	Retail Loans (percentages)	Credit Card Balances
Normal ⁽¹⁾	0.85% or more	1.00% or more	1.50% or more
Precautionary	7.00% or more	10.00% or more	15.00% or more
Substandard	20.00% or more	20.00% or more	20.00% or more
Doubtful	50.00% or more	55.00% or more	60.00% or more
Estimated loss	100.00%	100.00%	100.00%

⁽¹⁾ In the case of normal credits comprising loans to borrowers in the construction, wholesale and retail, accommodation and restaurant or real estate and housing industries (as classified under the Korean Industry Classification Standard), the applicable figure is 0.9% or more.

The historical loss rates used under Korean GAAP were different from those under U.S. GAAP as a result of differences in methodologies and industry practice including approaches for estimating charge-off recovery rates and loss factors from migration and roll rate analyses.

This adjustment also reflected the offsetting effects of (1) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (2) the deconsolidation of certain securitized loans and related reserves which we recorded as sales under Korean GAAP.

2. Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized as a yield adjustment over the life of the related loans, net of any related fees received. These costs relate to direct loan origination activities performed by us which include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. Korean GAAP requires that certain origination fees and costs be deferred and amortized as a yield adjustment over the life of the related loans.

3. In our consolidated financial statements under U.S. GAAP, we must include a proportionate share of the results of operations of our investments accounted for under the equity method, which would be also prepared on a U.S. GAAP basis. Consequently, the results of each of our equity method investments have been affected by the conversion from each investment's respective local GAAP to U.S. GAAP.

4. Under U.S. GAAP, decreases in fair value with respect to equity securities below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. For investment debt securities, the credit loss component of the impairment is recognized in earnings, while the remaining amount of the fair value loss is recognized in accumulated comprehensive income if (i) we do not intend to sell such securities and (ii) we believe that it is more-likely-than-not that we will not be required to sell before the expected recovery of the amortized cost basis. In determining whether a credit loss exists and the period over which an investment debt security is expected to recover, the following factors were considered: the length of time and the extent to which the market value had been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, when the recoverable value of available-for-sale or held-to-maturity securities is less than their amortized acquisition costs (in the case of equity securities, their acquisition costs), and there is any objective evidence of impairment, then their book value is adjusted to their recoverable amount, and the amount of their amortized acquisition costs (in the case of equity securities, their acquisition costs) in excess of the recoverable amount less the amount of impairment loss already recognized in the prior periods is reflected in current loss as impairment loss.

Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be formally designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness would be assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting were less prescriptive. This adjustment reflected the effects of the reversal of the hedge accounting treatment under Korean GAAP.

5. Under U.S. GAAP, the transfer of loans was recorded as a sale if specific and prescriptive criteria were met relating to the transferor's relinquishing control. If these criteria were not met, the transfer would be treated as a secured borrowing. Certain loan transfers (including those in connection with asset securitization transactions) that qualified for derecognition as sales under Korean GAAP did not meet U.S. GAAP criteria for derecognition as sales.

6. Previously, we revalued certain fixed assets in accordance with the Asset Revaluation Law of Korea. The revaluation increment was credited to capital surplus in accordance with Korean GAAP applicable during such period. As a result of such revaluation, depreciation expenses on these assets were adjusted to reflect the increased basis. In 2008, Korean GAAP was changed to permit asset revaluation and as a result, we opted to revalue our land. The accounting treatment under Korean GAAP for asset revaluation has been changed since the last time we revalued our fixed assets and, as a result, gain on revaluation was credited to accumulated other comprehensive income, net of tax. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As part of our normal operations, we occasionally dispose of fixed assets. Due to the difference in carrying value under U.S. GAAP and Korean GAAP noted above, there was an adjustment to reflect the difference in the gain or loss on disposal of those fixed assets.

7. In accordance with Korean GAAP, the value of consideration paid for Korea Long Term Credit Bank was based on the price of our common stock on the date that the transaction was consummated. In addition, the assets were recorded at their carrying values. This transaction created negative goodwill under Korean GAAP which was recorded in total equity. The application of U.S. GAAP resulted in goodwill because of differences in the measurement of the purchase price and recording the related assets and liabilities at fair value.

8. Under Korean GAAP, loans modified through troubled debt restructurings were carried at the lower of (1) the book value of the loan prior to restructuring and (2) the present value of the restructured loan. If carried at present value, the related present value discount was accreted to income over the remaining term of the restructured loans. Under U.S. GAAP, such trouble debt restructured loans were treated as impaired loans and the related allowance for loan losses were established based on (1) the present value of expected

future cash flows discounted, (2) the fair value of the collateral if the loan is collateral dependent, or (3) observable market prices if available. Accordingly, this difference reflects the reversal of the present value discount.

9. U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income. Under Korean GAAP, the portion of unrealized gains and losses on available-for-sale securities arising from foreign currency translation were recognized in earnings.

10. Under Korean GAAP, the value of consideration paid for H&CB was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the KRX KOSPI Market two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in negative goodwill due to the fact that the consideration paid was less than the fair value of H&CB's net assets acquired. Under Korean GAAP, goodwill was created because the value of consideration measured based on the consummation date was significantly higher. The adjustment primarily reflected the following:

- (a) Reversal of goodwill amortization that was recorded under Korean GAAP.
- (b) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.
- (c) Accretion to income or amortization to expense of the difference between the fair value and book value of the assets acquired and liabilities assumed.
- (d) The amortization related to the core deposit and credit card relationship intangible assets acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of the related depositor and customer relationships, respectively.

11. Under Korean GAAP, the value of consideration paid for the step-up acquisition of a subsidiary is measured based on book value of the subsidiary's net assets on the consummation date of the merger. Accordingly the value of consideration paid for the acquisition of Kookmin Credit Card ("KCC") was measured based on book value of KCC's net assets. However, under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the KRX KOSPI Market two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in goodwill due to the fact that the consideration paid was more than the fair value of KCC's net assets acquired. Under Korean GAAP, goodwill was not recognized because the value of consideration measured based on the consummation date was the same as the book value of KCC's net assets. The adjustment primarily reflected the following:

- (a) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.
- (b) The operating results of KCC was affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, the allocation to noncontrolling interests of their shares of KCC was also affected as a result of the conversion.
- (c) Accretion to income or amortization to expense of the difference between the fair value and book value of the assets acquired and liabilities assumed.
- (d) The amortization related to the credit card relationship intangible asset acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of customer relationships.

12. Under Korean GAAP, beneficiary certificates were treated as trading and available-for-sale securities. Unrealized gains or losses of beneficiary certificates classified as available-for-sale securities were recorded in the other comprehensive income of the total equity. When beneficiary certificates were sold, related realized gains or losses were recorded in net income. However, under U.S. GAAP, the underlying funds represented by the wholly owned beneficiary certificates were consolidated into our financial statements,

resulting in the net income or loss of the funds being reflected in our annual net income. The difference in the total equity mostly relates to the unrealized gains or losses on the beneficiary certificates treated as available for sale securities.

13. Under Korean GAAP, goodwill is amortized using the straight-line method over its useful life, not to exceed 20 years. Under U.S. GAAP, goodwill is not amortized but tested for impairment on an annual basis.

14. This adjustment reflects the effect of miscellaneous items which were not individually material.

With respect to tax effect of adjustments, under U.S. GAAP, we recognize the income tax effect of adjustments using the marginal income tax rate. Also, under U.S. GAAP, a tax position taken or expected to be taken in a tax return is evaluated to determine whether it is more likely than not to be sustained upon examination by the tax authorities, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Only tax positions that meet the more-likely-than-not criteria are measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities. Differences between tax positions taken in a tax return and amounts recognized are reflected in the financial statements as adjustments of income tax expense or deferred tax assets (liabilities). In addition, interest and penalties related to tax positions are classified as a component of income tax expense. Under Korean GAAP, there is no clear guideline on recognizing and measuring the benefits of uncertain tax positions. As a result, in practice, they are recognized as adjustments to income tax expense when realized.

Item 5C. *Research and Development, Patents and Licenses, etc.*

Not Applicable.

Item 5D. *Trend Information*

These matters are discussed under Item 5A and Item 5B above where relevant.

Item 5E. *Off-Balance Sheet Arrangements*

See “Item 5B. Liquidity and Capital Resources—Financial Condition—Contractual Cash Obligations” and “Item 5B. Liquidity and Capital Resources—Financial Condition—Commitments and Guarantees.”

Item 5F. *Tabular Disclosure of Contractual Obligations*

See “Item 5B. Liquidity and Capital Resources—Financial Condition—Contractual Cash Obligations.”

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. *Directors and Senior Management*

Board of Directors

Our board of directors, currently consisting of two executive directors, two non-standing directors and eight non-executive directors, has the ultimate responsibility for the management of our affairs.

Our articles of incorporation provide that:

- we may have no more than 30 directors;
- the number of executive directors must be less than 50% of the total number of directors; and
- we have five or more non-executive directors.

The term of office for each director is renewable and is subject to the Korean Commercial Code, the Financial Holding Company Act and related regulations.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of any director or any committee that serves under the board of directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea.

Executive Directors

The table below identifies our executive directors as of the date of this annual report:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>End of Term</u>
Yoon-Dae Euh	May 22, 1945	Chairman and Chief Executive Officer	July 13, 2010	July 12, 2013
Young Rok Lim	March 30, 1955	President	March 25, 2011	July 12, 2013

Our executive directors do not have any significant activities outside KB Financial Group.

Yoon-Dae Euh is our chairman and chief executive officer. Previously, he was the chairman of the Presidential Council on Nation Branding, the chairman of the steering committee of Korea Investment Corporation, president of Korea University, a member of the Public Fund Oversight Commission and a monetary board member of the Bank of Korea. Mr. Euh received a B.A. in business administration from Korea University, an M.B.A. from Korea University, an M.B.A. from the Asian Institute of Management and a Ph.D. in international finance from the University of Michigan at Ann Arbor.

Young Rok Lim is our president. He previously served as the vice minister and deputy minister of the former Ministry of Finance and Economy and the director-general of the Financial Policy Bureau at the former Ministry of Finance and Economy. He received a B.A. in literature and an M.A. in public administration from Seoul National University and an M.A. in economics from Vanderbilt University.

Non-standing Directors

The table below identifies our non-standing directors as of the date of this annual report:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>End of Term</u>
Byong Deok Min	May 8, 1954	Non-standing director; President and Chief Executive Officer of Kookmin Bank	March 25, 2011	July 12, 2013
Vaughn Richtor	October 29, 1955	Non-standing director; Chief Executive Officer of ING Banking Asia	March 25, 2011	2013 ⁽¹⁾

⁽¹⁾ Term will end on the date of the general stockholders' meeting in 2013.

Byong Deok Min has been a non-standing director since March 2011. He has also served as the president and chief executive officer of Kookmin Bank since 2010. He previously served as a senior executive vice president of the Consumer Banking Group at Kookmin Bank. He received a B.A. in business administration from Dongguk University.

Vaughn Richtor has been a non-standing director since March 2011. He has also served as the chief executive officer of ING Banking Asia since 2009. He previously served as a managing director and the chief executive officer of ING Vysya Bank, India, and the chief executive officer of ING Bank (Australia) Limited. He received a B.A. in business studies from Southbank London.

Non-executive Directors

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. All eight non-executive directors below were nominated by our Non-executive Director Nominating Committee and approved by our shareholders.

The table below identifies our non-executive directors as of the date of this annual report:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>Year Term Ends ⁽¹⁾</u>
Kyung Jae Lee	January 30, 1939	Non-executive Director	March 26, 2010	2012
Jae Wook Bae	March 30, 1945	Non-executive Director	March 25, 2011	2013
Young Jin Kim	December 11, 1949	Non-executive Director	March 25, 2011	2013
Jong Cheon Lee	February 3, 1951	Non-executive Director	March 25, 2011	2013
Sang Moon Hahm	February 2, 1954	Non-executive Director	September 29, 2008	2011
Seung Hee Koh	June 26, 1955	Non-executive Director	March 26, 2010	2012
Young Nam Lee	September 3, 1957	Non-executive Director	March 26, 2010	2012
Jae Mok Cho	January 5, 1961	Non-executive Director	March 27, 2009	2012 ⁽²⁾

⁽¹⁾ The date on which each term will end will be the date of the general stockholders' meeting in the relevant year unless otherwise specified.

⁽²⁾ Term will end on March 26, 2012.

Kyung Jae Lee has been a non-executive director and the chairman of our board of directors since March 2010. He previously served as the chief executive officer of the Industrial Bank of Korea, the chief executive officer of the Korea Financial Telecommunications & Clearings Institute and director and statutory auditor of the Bank of Korea. He received a B.A. in economics from Seoul National University, an M.A. in economics from New York University and a Ph.D. in economics from Kookmin University.

Jae Wook Bae has been a non-executive director since March 2011. He is currently a lawyer at Baejaewook Legal Office. He previously served as the presidential secretary for the Board of Audit and Inspection, a director of the Central Investigation Division of the Supreme Prosecutors' Office and a chief prosecutor at the Geochang Branch of the Changwon District Prosecutors' Office. He received a B.A. in law from Seoul National University and an M.A. in comparative law from the University of Michigan.

Young Jin Kim has been a non-executive director since March 2011. He is currently a professor at Seoul National University. He previously served as an outside director of Samsung Asset Management, director of the Korea Exchange and the president of the Korea Finance Association. He received a B.A. in business administration from Seoul National University, an M.B.A. from Columbia University and a D.B.A. in finance from Indiana Graduate School of Business.

Jong Cheon Lee has been a non-executive director since March 2011. He is currently a professor at Soongsil University. He was previously the chairman of the Korea Accounting Association, a non-standing director of Korea Gas Corporation and an advisory member at the former Ministry of Finance and Economy. He received a B.A. and an M.A. in business administration from Seoul National University and a Ph.D. in accounting from the University of Illinois.

Sang Moon Hahm has been a non-executive director since 2008. He is currently a professor at KDI School of Public Policy and Management. He was a chief researcher at the Korea Institute of Finance and an assistance professor at Virginia Tech. He received a B.A. in economics from Georgetown University, and an M.A. and Ph.D. in economics from the University of Chicago.

Seung Hee Koh has been a non-executive director since March 2010. He is currently a professor at Sookmyung Women's University. He was previously an advisor at the Fair Trade Commission of Korea and the chairman of the Finance Accounting Department at the Korea Accounting Association. He received a B.A. in business administration from Seoul National University, an M.B.A. from Indiana University and a Ph.D. in business administration from University of Oklahoma.

Young Nam Lee has been a non-executive director since March 2010. She is currently the chief executive officer of EZ Digital Co., Ltd. She previously served as the chairman of Korea Venture Business Women's Association and the chief executive officer of Seohyun Electronics Co., Ltd. She received a diploma in management from Dong Busan University and completed courses in business administration at Ajou University and the Korea Advanced Institute of Science and Technology.

Jae Mok Cho has been a non-executive director since March 2009. He is currently the Chief Executive Office of Ace Research Center Co., Ltd. in Seoul and Daegu. He was a member of the Seoul Advisory Committee and an adjunct professor of Hanyang University. He received a B.A., M.A. and Ph.D. in psychology from Keimyung University.

Any director having an interest in a transaction that is subject to approval by the board of directors may not vote at the meeting during which the board approves the transaction.

Executive Officers

The table below identifies our senior executive officers who are not executive directors as of the date of this annual report:

Name	Date of Birth	Position
Dong Chang Park	February 23, 1952	Deputy President; Chief Strategy Officer
Jong Kyoo Yoon	October 13, 1955	Deputy President; Chief Financial Officer
Wang-Ky Kim	March 19, 1955	Deputy President; Chief Public Relations Officer
Seok Heung Ryu	January 26, 1957	Deputy President; Chief Information Officer
Minho Lee	April 3, 1965	Deputy President; Chief Compliance Officer
Wonkeun Yang	September 17, 1956	Senior Managing Director; Head of KB Research
Yong Hee Kang	April 28, 1958	Managing Director; Chief Human Resources Officer
Hoon Nam	August 5, 1959	Managing Director; Head of Synergy Management Department

None of the executive officers has any significant activities outside KB Financial Group.

Dong Chang Park is a deputy president and the chief strategy officer. He previously served as the president of Korea Global Banking Research Institute, a global strategy advisor at Hana Financial Group, a visiting fellow at Korea Institute of Finance, an executive vice president of LG Investment & Securities and the president and chief executive officer of LG Petro Bank in Poland. He received a B.A. in law from Seoul National University, an M.B.A. from Korea University and a Ph.D. in economics from Hankuk University of Foreign Studies.

Jong Kyoo Yoon is a deputy president and the chief financial officer. He previously served on the Asset Management Commission of the Ministry of Strategy and Finance, as a senior advisor at Kim & Chang law firm, a senior executive vice president of Kookmin Bank and an executive vice president of Samil PricewaterhouseCoopers. He received a B.A. and a Ph.D. in business administration from Sungkyungkwan University and an M.B.A. from Seoul National University.

Wang-Ky Kim is a deputy president and the chief public relations officer. He previously served as an assistant minister and spokesman for the Prime Minister of Korea, a member of the Deliberation Committee for National Audit Request at the Board of Audit and Inspection of Korea, an executive director of International Herald Tribune—Joongang Daily and a reporter at Korea Herald. He received a B.A. in journalism from Korea University and an M.A. in IT management from Ajou University.

Seok Heung Ryu is a deputy president and the chief information officer. He also serves as a senior executive vice president of Kookmin Bank and head of its Information Technology Group. He previously served as a general manager of Kookmin Bank's IT Development Department and the head of Kookmin Bank's Development Management Department and Infra-development Department. He received a B.A. in electronic engineering from Hongik University.

Minho Lee is a deputy president and the chief compliance officer. He previously served as a standing senior legal advisor and the general manager of the legal department of Kookmin Bank and a senior attorney at Kim & Chang law firm. He received a B.A. in economics and an M.B.A. from Seoul National University and an LL.M. from Columbia Law School.

Wonkeun Yang is a senior managing director and the head of KB Research. He previously served as a management advisor at Daewoo Securities, a standing audit committee member at Woori Bank, an executive director of Korea Deposit Insurance Corporation and the head of research and a research fellow at Korea Institute of Finance. He received a B.A. in economics from Korea University and a Ph.D. in economics from Georgia State University.

Yong Hee Kang is a managing director and the chief human resources officer. He previously served as the head of Kookmin Bank's Seocho Regional Head Office, a general manager of Kookmin Bank's Apgujeong and East Uijeongbu branches and Kookmin Bank's Customer Satisfaction Department. He received a B.A. in business from Inha University.

Hoon Nam is a managing director and the head of Synergy Management Department. He previously served as a general manager of Kookmin Bank's Sanggye and Sooyoo branches and Kookmin Bank's Strategy Department, Corporate Purchasing Department and SOHO Supporting Team. He received a B.A. in mathematics from Busan University.

Item 6B. Compensation

The aggregate remuneration paid and benefits-in-kind granted by us to our chairman and chief executive officer, our other executive and non-standing directors, our non-executive directors and our executive officers for the year ended December 31, 2010 was (Won)3,757 million. In addition, for the year ended December 31, 2010, we set aside (Won)104 million for allowances for severance and retirement benefits for our chairman and chief executive officer, the other executive directors and our executive officers.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

Kookmin Bank granted stock options to its president and chief executive officer, other directors and executive officers, as well as employees. In connection with the comprehensive stock transfer in September 2008 pursuant to which we were established, such stock options were converted into stock options with respect to our common stock. See "Item 6E. Share Ownership—Stock Options." For all of the options granted, upon their exercise, we are required to pay in cash the difference between the exercise price and the market price of our common stock at the date of exercise. Generally, upon vesting, options may be exercised from after three years from the grant date up to eight years after such date, once restrictions on the exercise of options, including continued employment for at least two years from the grant date, lapse.

On November 1, 2004, Kookmin Bank granted 700,000 options to its former president and chief executive officer, Chung Won Kang. On November 1, 2007, 610,000 of the 700,000 options granted to Chung Won Kang vested and 90,000 options expired without vesting. On December 10, 2010, the 610,000 vested options were canceled.

In 2010, we recognized a reversal of compensation expense of (Won)10,385 million for the stock options granted under our stock option plan. For additional information regarding our compensation expense in connection with our stock option plan, see Note 28 to our consolidated financial statements.

In 2008, we also established a stock grant plan. Pursuant to this plan, we have entered into performance share agreements with certain of our directors, executive officers and other senior management, whereby we may grant shares of our common stock (or the equivalent monetary amount based on the market value of such shares at the time of the grant) within specified periods as long-term incentive performance shares in accordance with pre-determined performance targets. See “Item 6E. Share Ownership—Performance Share Agreements.” In 2010, we recognized (Won)15,185 million as compensation expense for the disbursements made under such agreements.

Item 6C. Board Practices

See “Item 6A. Directors and Senior Management” above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

We currently have the following committees that serve under the board:

- the Audit Committee;
- the Board Steering Committee;
- the Management Strategy Committee;
- the Group Risk Management Committee;
- the Evaluation and Compensation Committee;
- the Non-executive Director Nominating Committee;
- the Audit Committee Member Nominating Committee; and
- the Chairman and CEO Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

Audit Committee

The committee currently consists of five non-executive directors, Kyung Jae Lee, Jae Wook Bae, Jong Cheon Lee, Sang Moon Hahm and Seung Hee Koh. The chairperson of the Audit Committee is Seung Hee Koh. The committee oversees our financial reporting and approves the appointment of our independent registered public accounting firm. The committee also reviews our financial information, auditor’s examinations, key financial statement issues, the plans and evaluation of internal control and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter.

Board Steering Committee

The committee currently consists of five non-executive directors, Kyung Jae Lee, Sang Moon Hahm, Seung Hee Koh, Young Nam Lee and Jae Mok Cho, together with our chairman and chief executive officer, Yoon-Dae Euh. The chairperson of the Board Steering Committee is Kyung Jae Lee. The committee is responsible for

ensuring the efficient operation of the board and the facilitation of the board's functions. The committee is also responsible for discussion and review of overall matters with respect to the governance of us and our subsidiaries, promoting the efficiency and active function of the board and each committee. The committee holds regular meetings every quarter.

Management Strategy Committee

The committee currently consists of one non-standing director, Vaughn Richtor, three non-executive directors, Sang Moon Hahm, Young Nam Lee and Jae Mok Cho, and our chairman and chief executive officer, Yoon-Dae Euh. The chairperson of the committee is Sang Moon Hahm. The committee reviews vision and mid-long term management strategy, the annual business plan, the annual budget plan, new strategic businesses, major financial strategy and major issues with respect to our management. The committee holds regular meetings every quarter.

Group Risk Management Committee

The committee currently consists of one executive director, Young Rok Lim, one non-standing director, Byong Deok Min, and three non-executive directors, Jae Mok Cho, Young Jin Kim and Seung Hee Koh. The chairperson of the Group Risk Management Committee is Jae Mok Cho. The Group Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions and reviews risk-based capital allocations. The committee holds regular meetings every quarter.

Evaluation and Compensation Committee

The committee currently consists of five non-executive directors, Young Nam Lee, Kyung Jae Lee, Jae Wook Bae, Young Jin Kim and Jong Cheon Lee. The chairperson of the committee is Young Nam Lee. The Evaluation and Compensation Committee reviews compensation schemes and compensation levels of us and our subsidiaries. The committee is also responsible for deliberating and deciding compensation of directors, evaluating management's performance and deciding the performance-based annual salary of the president and the executive officers of us and our subsidiaries. The committee holds regular meetings every six months.

Non-executive Director Nominating Committee

The committee currently has no members. The last meeting of the committee was on March 4, 2011 to nominate Jae Wook Bae, Young Jin Kim and Jong Cheon Lee as new non-executive directors and Sang Moon Hahm for re-appointment as a non-executive director. The committee oversees the selection of non-executive director candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed.

Audit Committee Member Nominating Committee

The committee currently has no members. The last meeting of the committee was on March 4, 2011 to nominate Jae Wook Bae and Jong Cheon Lee as new Audit Committee members. The committee oversees the selection of Audit Committee member candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the Audit Committee members until the Audit Committee members are appointed.

Chairman and CEO Nominating Committee

The committee currently has no members. The last meeting of the committee was on June 17, 2010 to recommend to our board of directors to nominate Yoon-Dae Euh as an executive director to be appointed as our new chairman and chief executive officer. The committee oversees the selection of candidates to serve as our chairman and chief executive officer and recommends them to our board of directors. The term of the office of its members is from the first meeting of the committee held to nominate the chairman and chief executive officer until the nominated chairman and chief executive officer is appointed.

Item 6D. Employees

As of December 31, 2010, we had a total of 155 full-time employees, excluding ten executive officers, at our financial holding company. The following table sets forth information regarding our employees at both our financial holding company and our subsidiaries as of the dates indicated:

		As of December 31,		
		2008	2009	2010
KB Financial Group	Full-time employees ⁽¹⁾	96	100	155
	Contractual employees	—	—	—
	Managerial employees	78	81	124
	Members of Korea Financial Industry Union	—	—	—
Kookmin Bank	Full-time employees ⁽¹⁾	17,847	18,299	16,615
	Contractual employees	8,226	7,687	6,017
	Managerial employees	11,463	11,929	11,647
	Members of Korea Financial Industry Union	14,373	21,256	18,728
Other subsidiaries	Full-time employees ⁽¹⁾	1,035	1,129	1,113
	Contractual employees	109	105	190
	Managerial employees	579	660	662
	Members of Korea Financial Industry Union	101	100	97

⁽¹⁾ Excluding executive officers.

We consider our relations with our employees to be satisfactory. We and our subsidiaries each have a joint labor-management council which serves as a forum for ongoing discussions between our management and employees. At two of our subsidiaries, Kookmin Bank and KB Real Estate Trust, our employees have a labor union. Every year, the unions at Kookmin Bank and KB Real Estate Trust and their respective managements negotiate and enter into new collective bargaining agreements and negotiate annual wage adjustments.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to employees and management officers, including those of our subsidiaries, depending on level of responsibility of the employee or officer and business of the relevant subsidiary. Typically, executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. Also, Kookmin Bank has implemented a profit-sharing system in order to enhance the performance of Kookmin Bank's employees. Under this system, Kookmin Bank pays bonuses to its employees, in addition to the base salary and depending on Kookmin Bank's annual performance.

We provide a wide range of benefits to our employees, including our executive directors. Specific benefits provided may vary for each of our subsidiaries but generally include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses, and other benefits may be provided depending on the subsidiary.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the National Pension Corporation at the rate of 4.5% of each employee's annual wages. Our employees are also responsible for payment to the National Pension Corporation of 4.5% of their wages. Our employees are entitled to receive an annuity from the National Pension Corporation following their retirement, commencing at the age of 60.

Upon termination, our employees are entitled to receive severance payments pursuant to the Labor Standards Act of Korea. The amount received by any employee equals the amount equivalent to (1) 30 days' salary, calculated by averaging the employee's daily salary for the three months prior to the date of the employee's departure, multiplied by (2) the number of continuous years during which the employee worked. For information regarding our severance payments, see Note 27 of the notes to our consolidated financial statements.

In June 2009, we established an employee stock ownership plan. All of our employees are eligible to participate in this plan. We are not required to, and do not, make cash contributions to this plan. Members of our employee stock ownership association have preemptive rights to acquire up to 20% of our shares issued in public offerings by us pursuant to the Financial Investment Services and Capital Markets Act. In August 2009, we offered to members of our employee stock ownership association 6,000,000 of the 30,000,000 new shares of common stock to be issued in our rights offering to our existing shareholders, and the entire amount was subscribed by members of our employee stock ownership association. The employee stock ownership association held 3,859,261 shares of our common stock as of December 31, 2010.

Employees of Kookmin Bank have been eligible to participate in its employee stock ownership plan, which will be terminated once all of our common stock held by the plan (which the plan received following the transfer of Kookmin Bank shares held by it as a result of the comprehensive stock transfer pursuant to which we were established) have been distributed to the relevant Kookmin Bank employees at the requests of such employees following the expiration of the required holding periods. As of December 31, 2010, Kookmin Bank's employee stock ownership association held 1,140,195 shares of our common stock.

In order to develop our next generation of leaders and enhance the operational capability of our employees at each of our subsidiaries, we operate various employee training programs. These programs, which are aimed at cultivating financial specialists with higher levels of management and business skills, developing regional experts for increased global capabilities and enhancing employee loyalty, comprise a number of customized programs such as training courses for employees of different positions, domestic and foreign MBA courses and intensive human resources development programs for high performers to cultivate future leaders. For example, Kookmin Bank offers training programs at its employees' worksites to facilitate access to training, as well as a foreign regional expert training program and a global language training course. In 2008, Kookmin Bank established a "KB MBA in Finance" program to train and develop next generation leaders. We also provide financial and other support for our employees to develop their finance-related knowledge and skills by enrolling in training courses or engaging in self-study programs. The broad spectrum of training programs, combined with the state-of-the-art technologies such as cyber training, satellite broadcasting and mobile-learning, maximizes the level of exposure of the trainees to the contents of the programs. We also believe that our training scheme based on classified training courses and a development evaluation system has facilitated systemic development of employee skills and a spontaneous learning environment.

Item 6E. Share Ownership**Common Stock**

As of March 31, 2011, the persons who are currently our directors or executive officers, as a group, held an aggregate of 17,330 shares of our common stock, representing approximately 0.05% of the issued shares of our common stock as of such date. None of these persons individually held more than 1% of the outstanding shares of our common stock as of such date. The following table presents information regarding our directors and executive officers who beneficially owned our shares as of March 31, 2011.

<u>Name of Executive Officer or Director</u>	<u>Number of Shares of Common Stock</u>
Yoon-Dae Euh	10,210
Yong Rok Lim	1,000
Byong Deok Min	1,475
Sang Moon Hahm	2,637
Dong Chang Park	200
Wang-Ky Kim	600
Seok Heung Ryu	127
Yong Hee Kang	468
Hoon Nam	613
Total	<u>17,330</u>

Stock Options

We have not, following our establishment pursuant to a comprehensive stock transfer in September 2008, granted any stock options with respect to our capital stock to our directors, executive officers and employees. Prior to our establishment, Kookmin Bank granted stock options with respect to its common stock to its directors, executive officers and employees. In connection with the comprehensive stock transfer, in September 2008, such stock options with respect to Kookmin Bank common stock were converted into stock options with respect to our common stock. For all of the options granted, upon their exercise, we are required to pay in cash the difference between the exercise price and the market price of our common stock at the date of exercise. The following table is the breakdown of such stock options granted to Kookmin Bank's directors, executive officers and employees. It describes the grant date, position, exercise period and price and the number of options as of April 30, 2011 under Korean GAAP, not including previously issued options which are no longer exercisable as of such date.

Grant Date	Position When Granted	Exercise Period		Exercise Price	Number of Granted Options ⁽¹⁾	Number of Exercised Options	Number of Exercisable Options
		From	To				
27-Aug-03	Senior Executive Vice President	28-Aug-06	27-Aug-11	40,500	5,091	0	5,091
09-Feb-04	3 Senior Executive Vice Presidents	10-Feb-07	09-Feb-12	46,100	19,250	0	19,250
09-Feb-04	7 Employees	10-Feb-07	09-Feb-12	46,100	35,000	0	35,000
23-Mar-04	4 Non-executive Directors	24-Mar-07	23-Mar-12	48,650 ⁽²⁾	20,000	0	20,000
18-Mar-05	Chief Audit Executive	19-Mar-08	18-Mar-13	51,600	30,000	0	30,000
18-Mar-05	9 Non-executive Directors	19-Mar-08	18-Mar-13	55,618 ⁽²⁾	95,362	0	95,362
18-Mar-05	14 Senior Executive Vice Presidents	19-Mar-08	18-Mar-13	46,800	246,003	38,330	207,673
18-Mar-05	22 Employees	19-Mar-08	18-Mar-13	46,800	233,255	0	233,255
22-Jul-05	Senior Executive Vice President	23-Jul-08	22-Jul-13	49,200	29,441	0	29,441
23-Aug-05	Employee	24-Aug-08	23-Aug-13	53,000	7,212	0	7,212
24-Mar-06	Chief Audit Executive	25-Mar-09	24-Mar-14	77,900	19,917	0	19,917
24-Mar-06	8 Non-executive Directors	25-Mar-09	24-Mar-14	77,779 ⁽²⁾	126,710	0	126,710
24-Mar-06	5 Senior Executive Vice Presidents	25-Mar-09	24-Mar-14	76,623 ⁽²⁾	260,448	0	260,448
24-Mar-06	15 Employees	25-Mar-09	24-Mar-14	77,072 ⁽²⁾	344,576	0	344,576
28-Apr-06	Employee	29-Apr-09	28-Apr-14	81,900	25,613	0	25,613
27-Oct-06	Employee	28-Oct-09	27-Oct-14	76,600	18,987	0	18,987
8-Feb-07	4 Senior Executive Vice Presidents	9-Feb-10	8-Feb-15	77,100	55,594	0	55,594
8-Feb-07	27 Employees	9-Feb-10	8-Feb-15	77,100	601,904	0	601,904
23-Mar-07	Non-executive Director	24-Mar-10	23-Mar-15	84,500	15,246	0	15,246
					<u>2,189,609</u>	<u>38,330</u>	<u>2,151,279</u>

⁽¹⁾ Some numbers of the granted options have been adjusted due to the merger and the early retirement of the grantees.

⁽²⁾ Weighted average of the exercise price of all granted options.

Performance Share Agreements

In March 2009, our shareholders approved at the annual general meeting of shareholders the disbursement of a maximum of 250,000 shares of our common stock (or the equivalent monetary amount based on the market value of such shares at the time of disbursement), between September 29, 2008 and September 28, 2011, to our directors as long-term incentive performance shares over the term of their office in accordance with the performance targets set forth in the performance share agreements between us and such directors. In June 2009, we paid (Won)24 million, the equivalent monetary amount for 733 shares of our common stock, to our former non-executive director, Kee Young Chung. In March 2010, our shareholders approved at the annual general meeting of shareholders the disbursement of a maximum of 250,000 shares of our common stock (or the equivalent monetary amount based on the market value of such shares at the time of disbursement), between September 29, 2009 and September 28, 2012, to our directors as long-term incentive performance shares over the term of their office in accordance with the performance targets set forth in the performance share agreements between us and such directors. In April 2010, we paid an aggregate of (Won)184 million, the equivalent monetary amount for 3,563 shares of our common stock, to our former non-executive directors, Dam Cho and Bo Kyung Byun. In November 2010, we paid an aggregate of (Won)244 million, the equivalent monetary amount for 4,742 shares of our common stock, respectively, to our former non-executive directors, Chee Joong Kim and Chan Soo Kang. Future disbursements of such shares or equivalent monetary amount will be made to our directors upon the completion of their terms based on their performance.

We have also entered into performance share agreements with certain of our executive officers and senior management who are not directors, pursuant to which we may grant shares of our common stock (or the equivalent monetary amount based on the market value of such shares at the time of the grant) within specified periods as long-term incentive performance shares in accordance with pre-determined performance targets.

We expect that further actual disbursements under the performance share agreements with our directors and senior management will generally be in the form of cash disbursements of equivalent monetary amounts based on the market value of our shares at such time.

Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7A. Major Stockholders

The following table presents information regarding the beneficial ownership of our shares at December 31, 2010 by each person or entity known to us to own beneficially more than 5% of our issued and outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

Beneficial Owner ⁽¹⁾	Number of Shares of Common Stock	Percentage of Total Outstanding Shares of Common Stock (%) ⁽²⁾
Citibank N.A. ⁽³⁾	36,977,727	10.78%
Korean National Pension Service ⁽⁴⁾	18,933,284	5.52%
ING Bank N.V.	19,401,044	5.66%

⁽¹⁾ As of March 31, 2011, Kookmin Bank held 34,966,962 shares of our common stock with restricted voting rights under Korean law as a result of the comprehensive stock transfer pursuant to which we were established as a financial holding company. See “Item 4A. History and Development of the Company—The Establishment of KB Financial Group.”

⁽²⁾ Calculated based on 343,028,989 shares of our common stock outstanding as of December 31, 2010.

⁽³⁾ As depository bank.

⁽⁴⁾ As of February 8, 2011, Korean National Pension Service’s ownership of our shares was 19,399,221 shares, representing 5.66% of the total shares of our common stock outstanding as of such date.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the issued shares of our common stock or exercised control or could exercise control over us as of December 31, 2010. None of our major stockholders has different voting rights from our other stockholders.

Item 7B. Related Party Transactions

As of December 31, 2008, 2009 and 2010, we had an aggregate of (Won)2,581 million, (Won)3,818 million and (Won)7,176 million, respectively, in loans outstanding to our executive officers and directors and Kookmin Bank’s executive officers and directors. In addition, as of such dates, we had loans outstanding to various companies whose directors or executive officers were serving concurrently as our directors or executive officers. See Note 33 of the notes to our consolidated financial statements. All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Bank N.V. As a result:

- we are required to cause one nominee of ING Bank N.V. to be appointed as a non-executive director so long as ING Groep N.V. and its subsidiaries maintain a minimum shareholding in us as defined in the strategic alliance agreement, and to cause another nominee of ING Bank N.V. to be appointed as an executive director so long as ING Groep N.V. and its subsidiaries hold 6% or more of our issued and outstanding common shares;
- the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;
- ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger; and
- each of the parties agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which was 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management Co., Ltd. (which was 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

In August 2003, we amended and restated our joint venture agreement with ING Insurance International B.V. and ING Life Insurance Company, Korea, Ltd. This agreement established the terms of the joint venture between us and ING Insurance International with respect to ING Life Insurance Company, Korea. In December 2008, we sold all of our remaining stake in ING Life Insurance Company, Korea and our joint venture agreement with ING Insurance International and ING Life Insurance Company, Korea was terminated.

In August 2003, we also amended certain provisions in our joint venture agreement with ING Insurance International B.V. and KB Asset Management Co., Ltd. This agreement expanded and established the terms of the joint venture between us and ING Insurance International with respect to KB Asset Management.

In April 2004, we established a new wholly-owned insurance subsidiary, KB Life Insurance Co., Ltd., to which we contributed the acquired assets and liabilities of Hanil Life Insurance. KB Life focuses on bancassurance, and offers life insurance and wealth management products primarily through our branch network. ING Insurance International B.V. purchased a 49% interest in KB Life in January 2005.

In April 2008, Kookmin Bank and KB Asset Management Co., Ltd. entered into an agreement with ING Bank N.V. and ING Insurance International B.V. related to the planned establishment of KB Financial Group through a comprehensive stock transfer. Pursuant to this agreement and subject to certain conditions, ING Bank and ING Insurance International approved and agreed to support the stock transfer. The parties also agreed, among others, that the stock transfer shall not constitute a change of control or termination event for purposes of various agreements in effect between the parties and that Kookmin Bank and ING Bank agree to effect an assignment of Kookmin Bank's rights and obligations under the amended and restated strategic alliance agreement to KB Financial Group. Such assignment was effected in September 2008 pursuant to an assignment and assumption agreement among Kookmin Bank, ING Bank and KB Financial Group.

In connection with the "comprehensive stock transfer" under Korean law pursuant to which we were established, ING Insurance International B.V., which previously held a 20% equity interest in KB Asset Management Co., Ltd. transferred all of its shares of KB Asset Management common stock to us in September 2008 and in return received 1,290,815 shares of our common stock in accordance with a specified stock transfer ratio.

Item 7C. *Interests of Experts and Counsel*

Not Applicable

Item 8. FINANCIAL INFORMATION

Item 8A. *Consolidated Statements and Other Financial Information*

See “Item 18. Financial Statements” and pages F-1 through F-98.

Legal Proceedings

Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

In August 2006, the Korean government filed a lawsuit seeking the return of (Won)321 billion of excessive fees relating to the lottery operations against Kookmin Bank, Ernst & Young Han Young, Korea Lottery Service Inc. and Kookmin Bank’s and their relevant employees. In April 2009, the Seoul Central District Court dismissed the government’s claim. In May 2009, the government appealed the case to the Seoul High Court, which dismissed the appeal in September 2010. In October 2010, the government appealed the case to the Supreme Court of Korea, where it is currently pending.

In April 2004, the Lottery Commission of the Korean government revised the fee rate for fees payable to Korea Lottery Service Inc. by reducing it from 9.523% to 3.144%. Korea Lottery Service Inc. filed a lawsuit with the Seoul Central District Court claiming that such reduction by the Lottery Commission was invalid and demanding the payment of approximately (Won)20 billion of unpaid fees by Kookmin Bank, which is the difference between the fees payable by Kookmin Bank under the previous rate and the revised rate in respect of fees incurred in May 2004. In December 2006, the Seoul Central District Court ruled in favor of Korea Lottery Service Inc., and Kookmin Bank appealed to the Seoul High Court in January 2007. In May 2008, the Seoul High Court ruled in favor of Korea Lottery Service Inc. in part but reduced the amount of damages to (Won)4.5 billion. In June 2008, both Kookmin Bank and Korea Lottery Service Inc. appealed the case to the Supreme Court of Korea, where it is currently pending.

In addition, in January 2007, Korea Lottery Service Inc. filed another lawsuit with the Seoul Central District Court seeking payment of unpaid fees in the aggregate amount of (Won)446 billion, which is the difference between the fees payable by Kookmin Bank under the previous rate and the revised rate, for fees incurred from June 2004 to December 2006. In July 2008, the Seoul Central District Court ruled in favor of Kookmin Bank in part and reduced the amount of damages to (Won)123 billion. In August 2008, both Kookmin Bank and Korea Lottery Service Inc. appealed the case to the Seoul High Court, where it is currently pending.

Furthermore, in June 2008, Korea Lottery Service Inc. filed another lawsuit with the Seoul Central District Court seeking payment of unpaid fees in the aggregate amount of (Won)134 billion, which is the difference between the fees payable by Kookmin Bank under the previous rate and the revised rate, for fees incurred from January 2007 to December 1, 2007. The case is currently pending.

In May 2006 the Korea Fair Trade Commission commenced an investigation into whether various domestic banks (including Kookmin Bank) engaged in collusive or anti-competitive activity in connection with various commission fees. As a result of such investigation, in March 2008, the Korea Fair Trade Commission ordered Kookmin Bank to stop alleged price-fixing practices in charging certain new fees in connection with export bills of exchange and banker’s usance letters of credit and to pay administrative fines in the amount of (Won)257 million and (Won)439 million, respectively, for such activities. In June 2008, Kookmin Bank appealed the Korea Fair Trade

Commission's decisions to the Seoul High Court. In February 2009, the Seoul High Court ruled in favor of the Korea Fair Trade Commission with respect to Kookmin Bank's alleged price-fixing practices in charging certain new fees in connection with banker's usance letters of credit. In April 2009, the Seoul High Court ruled in favor of the Korea Fair Trade Commission with respect to Kookmin Bank's alleged price-fixing practices in charging certain new fees in connection with export bills of exchange. Kookmin Bank appealed both cases to the Supreme Court of Korea, which dismissed the appeals in April 2011.

Furthermore, in April 2008, the Korea Fair Trade Commission ordered Kookmin Bank to stop alleged price-fixing practices in connection with direct deposit fees, and to pay administrative fines in the amount of (Won)537 million for such activities. In July 2008, Kookmin Bank appealed the Korea Fair Trade Commission's decision to the Seoul High Court, which dismissed Kookmin Bank's appeal in May 2009. In June 2009, Kookmin Bank appealed this case to the Supreme Court of Korea, where it is currently pending.

During the first half of 2007, the National Tax Service of Korea completed a tax audit in respect of Kookmin Bank for the fiscal years 2002, 2003, 2004 and 2005, as a result of which Kookmin Bank was assessed (Won)190 billion (including residence tax) for tax deficiencies. In addition, during the second half of 2007, the National Tax Service of Korea assessed additional income taxes for prior years amounting to (Won)292 billion (including residence tax) for tax deficiencies. Kookmin Bank paid the entire amount of such additional assessments in 2007, but filed an appeal with the National Tax Tribunal with respect to tax assessments made in 2007 amounting to (Won)482 billion (including residence tax), which dismissed the appeal in March 2010. In June 2010, Kookmin Bank filed an appeal with the Seoul Administrative Court, which ruled in favor of Kookmin Bank on April 1, 2011. On April 19, 2011, the National Tax Service of Korea appealed this case to the Seoul High Court, where it is currently pending.

Since November 2008, certain of Kookmin Bank's customers have filed lawsuits against it in connection with its sales of foreign currency derivatives products known as "KIKO" (which stands for "knock-in knock-out"), which are intended to operate as hedging instruments against fluctuations in the exchange rate between the Won and the U.S. dollar. Due to the significant depreciation of the Won against the U.S. dollar in 2008 and 2009, customers who have purchased KIKO products from Kookmin Bank are required to make large payments to it. Seven companies filed lawsuits against Kookmin Bank alleging that the contracts under which the relevant KIKO products were sold should be invalidated and that Kookmin Bank should return payments received thereunder. Three of the lawsuits were dismissed and not appealed. The aggregate amount of the three remaining claims, as of March 31, 2011, was approximately (Won)12,428 million and may increase in the event of future depreciation of the Won against U.S. dollar. Additional lawsuits, as well as motions for preliminary injunctions, may be filed against Kookmin Bank with respect to KIKO products, and the final outcome of such litigation remains uncertain.

Since November 2008, a number of Kookmin Bank's customers have filed 11 lawsuits against it in connection with its sales of offshore funds and currency future contracts. The customers alleged that the losses were caused by Kookmin Bank's negligence in inadequately explaining the risks of such investment to its customers and in structuring funds with inappropriate currency future hedging features. Five of the lawsuits in which the plaintiffs claimed damages of (Won)557 million in aggregate were dismissed and not appealed. One of the lawsuits in which the plaintiffs claimed damages of (Won)154 million was dismissed by the Seoul Central District Court in July 2009 and the plaintiffs initially appealed to the Seoul High Court but subsequently withdrew the appeal. One of the lawsuits in which the plaintiffs claimed damages of (Won)221 million in aggregate was dismissed by the Seoul Central District Court in July 2009 and the plaintiffs appealed to the Seoul High Court in August 2009. However, the parties were ordered to undergo mediation and the case was settled with the amount of damages reduced to (Won)44 million. Three of the lawsuits in which the plaintiffs claimed damages of (Won)5,581 million in aggregate were dismissed by the Seoul Central District Court in the second half of 2010 and the plaintiffs appealed to the Seoul High Court, where they are currently pending. One of the lawsuits in which the plaintiffs claimed damages of (Won)199 million is pending at the Seoul Central District Court. Additional lawsuits may be filed against Kookmin Bank with respect to its sales of such products, and the final outcome of such litigation remains uncertain.

In August 2009, six purchasers that had entered into shipbuilding contracts with a Korean shipbuilding company filed a lawsuit in the United Kingdom against Kookmin Bank demanding repayment of US\$46.6 million of pre-delivery installments paid by the purchasers to the shipbuilding company under such contracts. In connection with such contracts, in August 2007, Kookmin Bank had issued to each of the six purchasers advance payment bonds, which effectively operate as refund guarantees on behalf of the shipbuilding company to cover its obligations to return pre-delivery installments paid by such purchasers in the event of, among other things, defaults by such shipbuilding company under the shipbuilding contracts. In January 2009, the shipbuilding company became subject to a debt workout procedure under the Corporate Restructuring Promotion Act. The six purchasers claimed that such an event constituted a default under each of the shipbuilding contracts and demanded repayment under the terms of the advance payment bonds of the installments paid to the shipbuilding company. In October 2009, the High Court of Justice, Queen’s Bench Division, Commercial Court ruled in favor of the six purchasers. Kookmin Bank appealed to the Court of Appeal, Queen’s Bench Division, Commercial Court, which overturned the lower court’s ruling in May 2010. The six purchasers appealed to the Supreme Court of the United Kingdom, where the case is currently pending.

In July 2010, the Korean government filed four lawsuits against Kookmin Bank in connection with its management of the National Housing Fund, claiming damages of (Won)120 billion in aggregate. The government alleged that certain loan losses incurred by the National Housing Fund were due to Kookmin Bank’s breach of its duty of care as a manager of the National Housing Fund. The four lawsuits are currently pending at the Seoul Central District Court.

In September 2010, the Financial Supervisory Service imposed an institutional warning on Kookmin Bank, as well as disciplinary and other warnings for several of Kookmin Bank’s current and former officers and reprimands or salary cuts for a number of its current and former employees, primarily in connection with Kookmin Bank’s losses on its investments in JSC Bank CenterCredit and Kookmin Bank’s issuance of US\$1 billion of covered bonds in May 2009.

Dividends

Dividends must be approved by the stockholders at the annual general meeting of stockholders. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See “Item 10B. Memorandum and Articles of Association—Description of Capital Stock—Dividends and Other Distributions.”

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends declared and paid by Kookmin Bank in respect of each of the two years ended December 31, 2007 and by us in respect of the years ended December 31, 2008, 2009 and 2010. The dividends set out for each of the years below were paid within 30 days after our annual stockholders meeting, which is held no later than March of the following year.

Fiscal Year	Dividends per Common share ⁽¹⁾		Dividends per Preferred Share		Total Amount of Cash Dividends Paid (in millions of Won)
	(Won)	US\$			
2006 ⁽²⁾	3,650	3.92	—	—	1,227,784
2007 ⁽³⁾	2,450	2.62	—	—	824,129
2008 ⁽⁴⁾	—	—	—	—	—
2009 ⁽⁵⁾	230	0.20	—	—	78,897
2010 ⁽⁶⁾	120	0.11	—	—	41,163

⁽¹⁾ Won amounts are expressed in U.S. dollars at the noon buying rate in effect at the end of the relevant periods as quoted by the Federal Reserve Bank of New York in the United States.

⁽²⁾ On February 8, 2007, Kookmin Bank’s board of directors passed a board resolution recommending a cash dividend of (Won) 3,650 per common share (before dividend tax), representing 73% of the par value of each share, for the fiscal year ended December 31, 2006. This resolution was approved and ratified by Kookmin Bank’s stockholders on March 23, 2007.

- (3) On February 4, 2008, Kookmin Bank's board of directors passed a board resolution recommending a cash dividend of (Won) 2,450 per common share (before dividend tax), representing 49% of the par value of each share, for the fiscal year ended December 31, 2007. This resolution was approved and ratified by Kookmin Bank's stockholders on March 20, 2008.
- (4) On February 11, 2009, our board of directors passed a board resolution recommending that no dividends be paid for the fiscal year ended December 31, 2008. This resolution was approved and ratified by our stockholders on March 27, 2009.
- (5) On February 10, 2010, our board of directors passed a board resolution recommending a cash dividend of (Won)230 per common share (before dividend tax), representing 4.6% of the par value of each share, for the fiscal year ended December 31, 2009. This resolution was approved and ratified by our stockholders on March 26, 2010.
- (6) On February 10, 2011, our board of directors passed a board resolution recommending a cash dividend of (Won)120 per common share (before dividend tax), representing 2.4% of the par value of each share, for the fiscal year ended December 31, 2010. This resolution was approved and ratified by our stockholders on March 25, 2011.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our stockholders, see "Item 10E. Taxation—United States Taxation" and "—Korean Taxation—Taxation of Dividends."

Item 8B. Significant Changes

Not Applicable.

Item 9. THE OFFER AND LISTING

Item 9A. Offering and Listing Details

Market Price Information

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock has been listed on the KRX KOSPI Market since October 10, 2008, and the ADSs have been listed on the New York Stock Exchange under the symbol "KB" since September 29, 2008. The ADSs are identified by the CUSIP number 48241A105.

Kookmin Bank's common stock was listed on the KRX KOSPI Market on November 9, 2001, and was suspended from trading from September 25, 2008 and de-listed on October 10, 2008 in connection with the comprehensive stock transfer pursuant to which we were established. Kookmin Bank ADSs were listed on the New York Stock Exchange from November 1, 2001 to September 26, 2008. The Kookmin Bank ADSs were identified by the CUSIP number 50049M109.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the KRX KOSPI Market for Kookmin Bank common stock with respect to the periods up to and including the third quarter of 2008 and for our common stock with respect to the subsequent periods, and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for Kookmin Bank ADSs with respect to the periods up to and including the third quarter of 2008 and for our ADSs with respect to the subsequent periods.

	KRX KOSPI Market ⁽¹⁾			New York Stock Exchange ⁽²⁾		
	Closing Price Per Common Stock		Average Daily Trading Volume (in thousands of shares)	Closing Price Per ADS		Average Daily Trading Volume (in thousands of shares)
	High	Low		High	Low	
2006	(Won)89,900	(Won)66,300	1,240.4	US\$97.50	US\$66.25	444.0
2007	89,500	61,600	1,527.1	96.57	64.57	523.8
2008	71,500	22,800	2,902.4	71.26	14.70	780.0
2009	63,200	26,850	2,390.1	55.07	16.82	533.3
First Quarter	40,100	26,850	3,088.8	31.11	16.82	719.7
Second Quarter	47,800	34,450	2,922.7	39.23	25.63	733.7
Third Quarter	61,900	44,200	2,056.5	51.47	34.25	403.4
Fourth Quarter	63,200	56,400	1,530.5	55.07	47.44	288.4
2010	60,400	45,900	1,921.9	52.89	37.81	326.8
First Quarter	59,400	45,900	1,755.2	52.62	38.69	343.6
Second Quarter	57,500	46,750	2,004.3	51.88	37.81	388.1
Third Quarter	52,500	46,550	1,993.3	45.46	38.11	320.4
Fourth Quarter	60,400	49,950	1,930.4	52.89	43.04	256.7
2011 (through June 17)	62,100	48,500	2,117.4	55.00	45.18	184.2
January	62,100	56,900	2,164.3	55.00	50.52	245.0
February	58,800	55,200	2,019.0	53.88	48.75	219.2
March	58,000	54,000	1,978.6	52.50	48.02	178.6
April	58,500	53,500	2,872.8	53.72	48.36	148.7
May	56,900	50,900	1,820.1	53.02	47.32	142.6
June (through June 17)	53,400	48,500	1,602.5	49.42	45.18	170.8

Source: Global Stock Information Financial Network and KRX KOSPI Market

⁽¹⁾ Trading of Kookmin Bank common shares on the KRX KOSPI Market commenced on November 9, 2001 and ended on September 24, 2008. Trading of our common shares on the KRX KOSPI Market commenced on October 10, 2008.

⁽²⁾ Trading of Kookmin Bank ADSs on the New York Stock Exchange commenced on November 1, 2001 and ended on September 26, 2008. Trading of our ADSs on the New York Stock Exchange commenced on September 29, 2008. Each ADS represents the right to receive one share.

Item 9B. Plan of Distribution

Not Applicable.

Item 9C. Markets

The KRX KOSPI Market

The KRX KOSPI Market (formerly known as the Stock Market Division of the Korea Exchange) began its operations in 1956. It has a single trading floor located in Seoul. The KRX KOSPI Market is a membership organization consisting of most of the Korean financial investment companies with a dealing and/or brokerage license and some Korean branches of foreign financial investment companies with such license.

As of December 31, 2010, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately (Won)1,141 trillion. The average daily trading volume of equity securities for 2010 was approximately 381 million shares with an average transaction value of (Won)5,620 billion.

The KRX KOSPI Market has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the KRX KOSPI Market. The KRX KOSPI Market also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The KRX KOSPI Market publishes the KOSPI, which is an index of all equity securities listed on the KRX KOSPI Market, every ten seconds. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table sets out movements in KOSPI:

	<u>Opening</u>	<u>High</u>	<u>Low</u>	<u>Closing</u>
1982	123.60	134.48	105.99	128.99
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,132.87	1,723.17	992.69	1,682.77
2010	1,681.71	2,052.97	1,548.78	2,051.00
2011 (through June 17)	2,070.08	2,228.96	1,923.92	2,031.93

Source: *The KRX KOSPI Market*

Shares are quoted “ex-dividend” on the first trading day of the relevant company’s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted “ex-dividend” and “ex-rights,” permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the KRX KOSPI Market to 15% of the previous day’s closing price of the shares, rounded down as set out below:

<u>Previous day’s closing price (Won)</u>	<u>Rounded Down to (Won)</u>
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to the deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the KRX KOSPI Market by the financial investment companies with a brokerage license. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See “Item 10E. Taxation—Korean Taxation.”

The following table sets forth the number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) ⁽¹⁾	Thousands of shares	(Millions of Won)	(Thousands of US\$) ⁽¹⁾
		(Won)	US\$		(Won)	US\$
1982	334	3,001	4,279	9,704	6,667	9,507
1983	328	3,490	4,666	9,325	5,941	7,944
1984	336	5,149	6,434	14,847	10,642	13,301
1985	342	6,570	7,921	18,925	12,315	14,846
1986	355	11,994	13,439	31,755	32,870	36,830
1987	389	26,172	30,250	20,353	70,185	81,120
1988	502	64,544	81,177	10,367	198,364	249,483
1989	626	95,477	138,997	11,757	280,967	409,037
1990	669	79,020	115,610	10,866	183,692	268,753
1991	686	73,118	101,623	14,022	214,263	297,795
1992	688	84,712	110,691	24,028	308,246	402,779
1993	693	112,665	142,668	35,130	574,048	726,919
1994	699	151,217	185,657	36,862	776,257	953,047
1995	721	141,151	178,266	26,130	487,762	616,016
1996	760	117,370	151,289	26,571	486,834	627,525
1997	776	70,989	82,786	41,525	555,759	648,115
1998	748	137,799	81,297	97,716	660,429	389,634
1999	725	349,504	294,319	278,551	3,481,620	2,931,891
2000	704	188,042	166,703	306,163	2,602,211	2,306,925
2001	689	255,850	200,039	473,241	1,997,420	1,561,705
2002	683	258,681	217,379	857,245	3,041,598	2,308,789
2003	684	355,363	298,123	542,010	2,216,636	1,859,594
2004	683	412,588	398,597	372,895	2,232,108	2,156,418
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006	731	704,588	757,621	279,096	3,435,180	3,693,742
2007	745	951,900	1,017,205	363,732	5,539,588	5,919,628
2008	763	592,635	469,600	355,205	5,189,643	4,112,238
2009	770	887,935	763,027	485,657	5,795,426	4,980,172
2010	777	1,141,885	1,009,981	380,859	5,619,768	4,970,607
2011 (through June 10)	781	1,150,248	1,061,115	333,301	7,458,658	6,880,681

Source: *The KRX KOSPI Market*

⁽¹⁾ Converted at the noon buying rate of the Federal Reserve Bank of New York in effect on the last business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act, which replaced the Korean Securities and Exchange Act in February 2009. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading, price manipulation and deceptive action (including unfair trading), requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for stockholders holding substantial interests.

Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the KRX KOSPI Market, and that financial investment company places a sell order with another financial investment company with a brokerage license, which is a member of the KRX KOSPI Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the KRX KOSPI Market is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the KRX KOSPI Market breaches its obligation in connection with a buy order, the KRX KOSPI Market is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from such financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a financial investment company with a brokerage license prior to August 1, 1998 in case of such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification was available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to (Won)50 million. Pursuant to the Financial Investment Services and Capital Markets Act, financial investment companies with a dealing and/or brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment companies is prohibited. The premiums related to this insurance are paid by such financial investment companies.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as "Equity Securities"), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total issued and

outstanding shares (plus Equity Securities of us held by such persons) is required to report the status and purpose (in terms of whether the purpose of the shareholding is to exercise control over our management) of the holdings to the Financial Services Commission and the KRX KOSPI Market within five business days after reaching the 5% ownership interest. In addition, any change in (i) the ownership interest subsequent to the report that equals or exceeds 1% of the total issued and outstanding Equity Securities of us or (ii) the purpose of the shareholding is required to be reported to the Financial Services Commission and the KRX KOSPI Market within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5% of the total issued and outstanding Equity Securities with respect to which the reporting requirements were violated. Furthermore, the Financial Services Commission may order the disposal of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a “major stockholder”) must report the status of his/her shareholding to the Korea Securities and Futures Commission and the KRX KOSPI Market within five days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities and Futures Commission and the KRX KOSPI Market within the 5th day of the occurrence of the change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Any single stockholder and persons who stand in a special relationship with that stockholder that acquire more than 4% of the voting stock of a nationwide Korean bank pursuant to the Bank Act will be subject to reporting requirements. In addition, any single stockholder and persons who stand in a special relationship with that stockholder that acquire in excess of 10% of a nationwide bank’s total issued and outstanding shares with voting rights must receive approval from the Financial Services Commission to acquire shares in each instance where the total shareholding would exceed 10%, 25% or 33%, respectively, of the bank’s total issued and outstanding shares with voting rights. See “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership.”

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Supervisory Service, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depositary is required to obtain the prior consent of us for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit.

We have agreed to grant such consent to the extent that the total number of shares on deposit with the depository would not exceed 116,583,985 at any time.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations (which we refer to collectively as the “Investment Rules”) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or on the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or on the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as “Converted Shares”) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depository receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; and
- sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from a financial investment company with a dealing and/or brokerage license with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including Converted Shares and shares being issued for initial listing on the KRX KOSPI Market or on KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance under the Financial Investment Services and Capital Markets Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. In addition, if a foreign investor acquires or sells his shares in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, such foreign investor or his standing proxy must ensure that the financial investment company that was engaged to facilitate the transaction reports such transaction to the governor of the Financial Supervisory Service. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing and/or brokerage license (including domestic branches of foreign financial investment companies with such license), financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license) and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in the custody of an eligible custodian in Korea. The same entities eligible to act as a standing proxy are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. A foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the foreign investors' home country.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation that has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Knowledge Economy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see "Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership."

Item 9D. *Selling Shareholders*

Not Applicable.

Item 9E. *Dilution*

Not Applicable.

Item 9F. *Expenses of the Issue*

Not Applicable.

Item 10. ADDITIONAL INFORMATION

Not Applicable.

Item 10A. Share Capital

Not Applicable.

Item 10B. Memorandum and Articles of Association**Description of Capital Stock**

Set forth below is information relating to our capital stock, including brief summaries of certain provisions of our articles of incorporation, the Korean Commercial Code, Financial Investment Services and Capital Markets Act and certain related laws of Korea, all as currently in effect. The following summaries do not purport to be complete and are subject to the articles of incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

As of December 31, 2010, our authorized share capital is 1,000,000,000 shares. Subject to applicable laws and regulations, we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares and shares of convertible stock up to 20% of all of the issued and outstanding shares under our articles of incorporation. Also, at the time of issuance of preferred shares, we may, pursuant to a resolution of the board of directors, issue such preferred shares as redeemable shares that can be redeemed at our discretion using our profits. Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, which may be common shares or preferred shares having additional features as prescribed under the Korean Commercial Code. See “—Voting Rights.”

As of the date of this annual report, 386,351,693 shares of common stock were issued and 351,384,731 shares of common stock were outstanding. No preferred stock is currently outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 613,648,307 shares. We may issue the unissued shares without further stockholder approval, subject to a board resolution as provided in the articles of incorporation. See “—Preemptive Rights and Issuances of Additional Shares” and “—Dividends and Other Distributions—Distribution of Free Shares.”

Our articles of incorporation provide that our stockholders may, by special resolution, grant to our and our subsidiaries’ officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options to non-director officers and employees exercisable for up to 1% of our issued and outstanding shares, provided that such grant must be approved by a resolution of the subsequent general meeting of stockholders. As of April 30, 2011, our officers, directors and employees held options to purchase 2,151,279 shares of our common stock. Upon their exercise of such stock options, we are required to pay in cash the difference between the exercise price and the market price of our common stock at the date of exercise. See “Item 6E. Share Ownership—Stock Options.”

Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Organization and Register

We are a financial holding company established under the Financial Holding Company Act. We are registered with the commercial registry office of Seoul Central District Court.

Dividends and Other Distributions

Dividends

Dividends are distributed to stockholders in proportion to the number of shares of the relevant class of capital stock owned by each stockholder following approval by the stockholders at an annual general meeting of stockholders. Subject to the requirements of the Korean Commercial Code and other applicable laws and regulations, we expect to pay full annual dividends on newly issued shares for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of stockholders, which are held within three months after the end of each fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting unless otherwise resolved thereby. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividend (including dividends in shares). In addition to the annual dividend, we may also distribute cash dividends to the stockholders of record as of the end of March, June and September each year upon a resolution by the board of directors.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Financial Holding Company Act and related regulations require that each time a Korean financial holding company pays an annual dividend, it must set aside in its legal reserve to stated capital an amount equal to at least one-tenth of its net income after tax until the amount set aside reaches at least the aggregate amount of its stated capital. Unless it sets aside this amount, a Korean financial holding company may not pay an annual dividend. We intend to set aside allowances for loan losses and reserves for severance pay in addition to this legal reserve.

For information regarding Korean taxes on dividends, see “Item 10E. Taxation—Korean Taxation.”

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed pro rata to all stockholders. Our articles of incorporation provide that the types of shares to be distributed to the holders of preferred shares will be the same type of preferred shares held by such holders.

Preemptive Rights and Issuances of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all stockholders who have preemptive rights and who are listed on the stockholders’ register as of the applicable record date. Our stockholders will be entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in our articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are:

(1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to an employee stock ownership association, (3) issued upon exercise of stock options pursuant to the Financial Investment Services and Capital Markets Act, (4) issued for the issuance of our depositary receipts, (5) issued to certain foreign or domestic financial institutions or institutional investors to raise funds to meet urgent needs for our management or operations or (6) issued primarily to a third party who has contributed to the management of

our business, including by providing financing, credit, advanced financing technique, know-how or entering into close business alliances, except that, in the case of issuances of new shares under (1), (4), (5) and (6) above, the number of new shares issued to persons other than existing stockholders may not exceed 50% of our total issued and outstanding capital stock.

Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the stockholders' register is closed) prior to the record date. We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before such deadline, the stockholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, members of a company's employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then issued and outstanding.

Voting Rights

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we or any of our subsidiaries holds may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Korean Commercial Code permits holders of an aggregate of 1% or more of the issued and outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation do not prohibit cumulative voting. The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those shares of common stock present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding voting shares. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of stockholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our annual general stockholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general stockholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that to amend the articles of incorporation, which is also required for any change to the authorized share capital of the company, and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company, acquisition of a part of the business of any other company having a material effect on the business of the company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interest of the holders of the preferred shares are adversely affected, a resolution must be adopted by a separate meeting of holders of the preferred shares. Such a resolution

may be adopted if the approval is obtained from stockholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will first be distributed to holders of preferred shares which have a preference right in respect of the distribution of residual properties as determined by our board of directors at the time of their issuance, and the residue thereafter will be distributed to the other stockholders in proportion to the number of shares held by them.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We will be required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our issued and outstanding shares, or the holders of an aggregate of 1.5% or more of our issued and outstanding stock with voting rights, who have held those shares at least for six months. Under the Korean Commercial Code, an extraordinary general meeting of stockholders may also be convened at the request of our Audit Committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of stockholders only to the extent the non-voting shares have become enfranchised as described under the section entitled “—Voting Rights” above, hereinafter referred to as “enfranchised non-voting shares.” Meeting agendas will be determined by the board of directors or proposed by holders of an aggregate of 3% or more of the issued and outstanding shares with voting rights, or by holders of an aggregate of 0.5% or more of our issued and outstanding shares with voting rights, who have held those shares for at least six months, by way of a written proposal to the board of directors at least six weeks prior to the meeting. Written notices or e-mail notices stating the date, place and agenda of the meeting must be given to the stockholders at least two weeks prior to the date of the general meeting of stockholders. Notice may, however, be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, either by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers or by placing a notice through the electronic disclosure system operated by the Financial Supervisory Service or the Korea Exchange. Stockholders who are not on the stockholders’ register as of the record date will not be entitled to receive notice of the general meeting of stockholders, and they will not be entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the stockholders’ register as of the record date will be entitled to receive notice of the general meeting of stockholders and they will be entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares will not be entitled to receive notice of or vote at general meetings of stockholders.

The general meeting of stockholders will be held at our head office, which is our registered head office, or, if necessary, may be held anywhere in the vicinity of our head office.

Rights of Dissenting Stockholders

Pursuant to the Financial Investment Services and Capital Markets Act and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business, if we acquire a part of the business of any other company and such acquisition has a material effect on our business or if we merge or consolidate with another company), dissenting holders of shares of our common stock and our preferred stock who acquired such shares prior to the announcement of the relevant resolution of the board of directors (or up to one day after such announcement in

the event that such resolution is made by the board of directors pursuant to a presidential decree) will have the right to require us to purchase their shares by providing written notice to us. To exercise such a right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders. Within 20 days (10 days in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which the relevant resolution is passed at such meeting, such dissenting stockholders must request in writing that we purchase their shares. We are obligated to purchase the shares from dissenting stockholders within one month after the end of such request period (within two months after the receipt of such request in the case of a merger or consolidation under the Law on Improvement of the Structure of Financial Industry) at a price to be determined by negotiation between the stockholder and us. If we cannot agree on a price with the stockholder through such negotiations, the purchase price will be the arithmetic mean of:

- the weighted average of the daily stock prices on the KRX KOSPI Market for the two-month period prior to the date of the adoption of the relevant board of directors' resolution;
- the weighted average of the daily stock prices on the KRX KOSPI Market for the one-month period prior to the date of the adoption of the relevant board of directors' resolution; and
- the weighted average of the daily stock prices on the KRX KOSPI Market for the one-week period prior to the date of the adoption of the relevant board of directors' resolution.

However, any dissenting stockholder who wishes to contest the purchase price may bring a claim in court.

Required Disclosure of Ownership

Under Korean law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report the status of their holdings to the Financial Services Commission and other relevant governmental authorities. For a description of such required disclosure of ownership, see “Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Ownership of a Financial Holding Company” and “Item 9C. Markets—Reporting Requirements for Holders of Substantial Interests.”

Other Provisions

Register of Stockholders and Record Dates

We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of stockholders may be closed for the period beginning from January 1 and ending on January 31. Further, the Korean Commercial Code and our articles of incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. However, in the event that the register of stockholders is closed for the period beginning from January 1 and ending on January 31 for the purpose of determining the holders of shares entitled to attend the annual general meeting of stockholders, the Korean Commercial Code and our articles of incorporation waive the requirement to provide at least two weeks' public notice. The trading of shares and the delivery of certificates in respect thereof may continue while the register of stockholders is closed. Also, we may distribute dividends to stockholders on a quarterly basis, and the record dates for these quarterly dividends are the end of March, June and September of each year.

Annual Reports

At least one week before the annual general meeting of stockholders, we must make our management report to shareholders and audited financial statements available for inspection at our head office and at all of our branch offices. Copies of this report, the audited financial statements and any resolutions adopted at the general meeting of stockholders are available to our stockholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Korean Financial Services Commission and the KRX KOSPI Market an annual business report within 90 days after the end of each fiscal year, a half-year business report within 45 days after the end of the first six months of each fiscal year and quarterly business reports within 45 days after the end of the first three months and nine months of each fiscal year, respectively. Copies of such business reports will be available for public inspection at the Korean Financial Services Commission and the KRX KOSPI Market.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. The Financial Investment Services and Capital Markets Act provides, however, that in case of a company listed on the KRX KOSPI Market such as us, share transfers can be effected by the book-entry method. In order to assert stockholders' rights against us, the transferee must have his name and address registered on the register of stockholders. For this purpose, stockholders are required to file with us their name, address and seal. Non-resident stockholders must notify us of the name of their proxy in Korea to which our notice can be sent.

Under current Korean regulations, the following entities may act as agents and provide related services for foreign stockholders:

- the Korea Securities Depository;
- internationally recognized foreign custodians;
- financial investment companies with a dealing license (including domestic branches of foreign financial investment companies with such license);
- financial investment companies with a brokerage license (including domestic branches of foreign financial investment companies with such license);
- foreign exchange banks (including domestic branches of foreign banks); and
- financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license).

In addition, foreign stockholders may appoint a standing proxy among the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See "Item 9C. Markets" and "Item 10D. Exchange Controls." Except as provided in the Financial Holding Company, the ceiling on the aggregate shareholdings of a single stockholder and persons who stand in a special relationship with such stockholder is 10% of our issued and outstanding voting shares. See "Item 4B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Ownership of a Financial Holding Company."

Acquisition of Our Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Company Act and after submission of certain reports to the Korean Financial Services Commission, we may purchase our own shares on the KRX KOSPI Market or through a tender offer, subject to the restrictions that:

- the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year; and
- the purchase of such shares shall meet the risk-adjusted capital ratio requirements prescribed in the regulations under the Financial Holding Company Act based on Bank for International Settlements standards.

Subject to certain limited exceptions, our subsidiaries will not be permitted to acquire our shares pursuant to the Financial Holding Company Act.

Item 10C. *Material Contracts*

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., pursuant to which we agreed to replace the prior investment agreement entered into with the affiliates of ING Bank and H&CB with this agreement and to enter into joint venture agreements with its affiliates relating to the bancassurance business and KB Asset Management. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Bank N.V. As a result:

- we are required to cause one nominee of ING Bank N.V. to be appointed as a non-executive director so long as ING Groep N.V. and its subsidiaries maintain a minimum shareholding in us as defined in the strategic alliance agreement, and to cause another nominee of ING Bank N.V. to be appointed as an executive director so long as ING Groep N.V. and its subsidiaries hold 6% or more of our issued and outstanding common shares;
- the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance; and
- ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger.

In April 2008, Kookmin Bank and KB Asset Management Co., Ltd. entered into an agreement with ING Bank N.V. and ING Insurance International B.V. related to the planned establishment of KB Financial Group through a comprehensive stock transfer. Pursuant to this agreement and subject to certain conditions, ING Bank and ING Insurance International approved and agreed to support the stock transfer. The parties also agreed, among others, that the stock transfer shall not constitute a change of control or termination event for purposes of various agreements in effect between the parties and that Kookmin Bank and ING Bank agree to effect an assignment of Kookmin Bank's rights and obligations under the amended and restated strategic alliance agreement to KB Financial Group.

In connection with the "comprehensive stock transfer" under Korean law pursuant to which we were established, ING Insurance International B.V., which previously held a 20% equity interest in KB Asset Management Co., Ltd. transferred all of its shares of KB Asset Management common stock to us in September 2008 and in return received 1,290,815 shares of our common stock in accordance with a specified stock transfer ratio.

For more details regarding our relationship with ING Groep N.V., see "Item 4A. History and Development of the Company—History of H&CB," "Item 4B. Business Overview—Other Businesses—Bancassurance," and "Item 7B. Related Party Transactions."

Item 10D. *Exchange Controls*

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the “Foreign Exchange Transaction Laws,” regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government deems that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government deems that international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor’s financial investment company with a dealing and/or brokerage license or in his Won account. Funds in the investor’s Won account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with dealing and/or brokerage licenses are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors’ stock investments in Korea. Through these accounts, such financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10E. Taxation

United States Taxation

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 5% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a “U.S. holder” if you are the beneficial owner of a common share or an ADS and are:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depositary’s receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2013 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (“PFIC”). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, we believe that we were not a PFIC in our 2009 or 2010 taxable year. In addition, based on our audited financial statements and current expectations regarding our income, assets and activities, we do not anticipate becoming a PFIC for our 2011 taxable year.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on “general limitation” income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder’s expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder’s particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup

withholding unless the holder (i) is an exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 22.0% (inclusive of resident surtax). If you are a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See “—Tax Treaties” below for a discussion on treaty benefits. If we distribute to you shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities may require in order to establish your entitlement to the benefits of the applicable tax treaty (which will include a certificate of your tax residency issued by a competent authority of your country of tax residence).

If you hold ADSs, evidence of tax residence may be submitted to us through the Depositary.

Taxation of Capital Gains From Transfer of Shares or ADSs

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11% (inclusive of resident surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of resident surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident’s country of tax residence. See “—Tax Treaties” below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regards to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any person with which you have a certain special relationship) 25% or more of the total issued and outstanding shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, capital gains from transfers of ADSs outside Korea will not be exempt from Korean

income taxation under the STTCL if you owned our common shares prior to the issuance of the ADSs upon the deposit of such common shares and you retain ownership of such ADSs until the date of their transfer.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of our common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of the common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, such financial investment company is required to withhold Korean tax from the sales price in an amount equal to the lower of (1) 11% (inclusive of resident surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of resident surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. To obtain the benefit of an exemption from tax pursuant to an applicable tax treaty, you must submit to the purchaser or the financial investment company, or through the ADS depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under “—Tax Treaties” below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, the common shares or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (depending on your shareholding ratio and inclusive of resident surtax) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividend income or capital gains is substantially less than the tax generally imposed by the United States on corporate profits and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual and (a) you maintain a fixed base in Korea for an aggregate of 183 days or more during a given taxable year and your ADSs or common shares giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for an aggregate of 183 days or more during a given taxable year.

You should inquire for yourself whether you are entitled to the benefit of a tax treaty between Korea and the country where you are a resident. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to obtain the benefit of a tax exemption on certain Korean source income (such as dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the common shares underlying the ADSs. If the tax authority

interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%, provided that the value of the ADSs or the common shares is greater than a specified amount.

If you die while holding a common share or donate a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer our common shares on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the common shares. If your transfer of the common shares is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Under the Securities Transaction Tax Law, last amended in December 2010, depositary receipts (such as American depositary receipts) constitute share certificates subject to the securities transaction tax. However, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq Global Market, or other qualified foreign exchanges is exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the common shares or ADSs. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Item 10F. *Dividends and Paying Agents*

Not Applicable.

Item 10G. *Statements by Experts*

Not Applicable.

Item 10H. *Documents on Display*

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

Item 10I. *Subsidiary Information*

Not Applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

As a financial services provider, we are exposed to various risks related to our lending and trading businesses, our funding activities and our operating environment, principally through Kookmin Bank, our banking subsidiary. Our goal in risk management is to ensure that we identify, measure, monitor and control the various risks that arise, and that our organization adheres strictly to the policies and procedures which we establish to address these risks. Under our internal regulations pertaining to our consolidated capital adequacy ratio and internal standards for risk appetite and economic capital under Basel II, we identify the following eight separate categories of risk inherent in our business activities: credit risk, market risk, operational risk, interest rate risk, liquidity risk, credit concentration risk, reputation risk and strategic risk. Of these, the principal risks to which we are exposed are credit risk, market risk, liquidity risk and operational risk, and we strive to manage these and other risks within acceptable limits.

Organization

We have a multi-tiered risk management governance structure. Our Group Risk Management Committee is ultimately responsible for group-wide risk management, and directs our various subordinate risk management entities. The Group Risk Management Council reports directly to the Group Risk Management Committee and coordinates the implementation of directives set forth by the Group Risk Management Committee with the relevant risk management units of our subsidiaries. The Subsidiary Risk Management Committee of each of our subsidiaries, based on the Group Risk Management Committee's directives, determines risk management strategies and implements risk management policies and guidelines for such subsidiary and directs the activities of the subsidiary's risk management units within the risk guidelines set at the group level. Each Subsidiary Risk Management Committees generally receive inputs from the respective risk management units of such subsidiary, who also report directly to the Group Risk Management Committee.

The following chart sets out our risk management governance structure as of the date of this annual report:



Group Risk Management Committee

Our Group Risk Management Committee is a board-level committee that is responsible for overseeing all risks and advising the board of directors with respect to risk management-related issues. The committee consists of one executive director, one non-standing director and three non-executive directors (one of whom serves as the chairman of the committee), and its major roles include:

- establishing risk management strategies in accordance with the directives of the board of directors;
- determining our target risk appetite;
- reviewing the level of risks we are exposed to and the appropriateness of our risk management policies, systems and operations; and
- allocating risk capital to each subsidiary and approving our subsidiaries' risk limits.

Group Risk Management Council

Our Group Risk Management Council is responsible for coordinating with the risk management units of our subsidiaries to ensure that they implement the policies, guidelines and limits established by the Group Risk Management Committee. Its responsibilities include:

- analyzing our risk status by using information provided by our subsidiary-level risk management units;
- adjusting the integrated risk capital allocation plan and risk limits for each of our subsidiaries; and
- coordinating issues relating to the group-wide integration of our risk management functions.

The Group Risk Management Council is comprised of our chief risk management officer and the chief risk management officers of all of our subsidiaries. It operates independently from all business units, and reports directly to the Group Risk Management Committee. Our Group Risk Management Council convenes on a quarterly basis.

Subsidiary Risk Management Committees

Each of our subsidiaries has delegated risk management authority to its Subsidiary Risk Management Committee. Each Subsidiary Risk Management Committee measures and monitors the various risks faced by the relevant subsidiary and reports to that subsidiary's board of directors regarding decisions that it makes on risk management issues. It also makes certain strategic risk-related decisions regarding the operations of the relevant subsidiary, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the subsidiary can trade. The major activities of each Subsidiary Risk Management Committee include:

- determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of subsidiary risk in accordance with group policy;
- reviewing and analyzing the subsidiary's risk profile;
- setting limits for and adjusting the risk capital allocation plan and risk levels for each business unit within the subsidiary; and
- monitoring compliance with our group-wide risk management policies and practices at the business unit and subsidiary level.

Each Subsidiary Risk Management Committee is comprised of the subsidiary's chief executive officer, the non-executive directors on its board of directors and the director of its risk management unit.

In the case of Kookmin Bank, our banking subsidiary, the risk management activities of its Risk Management Committee is supported by Kookmin Bank's Risk Management Council, which serves as the

executive decision making body for Kookmin Bank's risk management operations. At the operational level, Kookmin Bank's Risk Management Department and the Credit Analysis Group work closely with its business groups to implement risk management strategies, policies and procedures in accordance with the directives set forth by the Group Risk Management Committee and the risk management strategies determined by Kookmin Bank's Risk Management Committee.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. We determine the creditworthiness of each type of borrower or counterparty through reviews conducted by our credit experts and through our credit rating systems, and we set a credit limit for each borrower or counterparty.

We assess and manage all credit exposures, whether on- or off-balance sheet. These exposures include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Our risk appetite, which is the ratio of our required economic capital to our estimated available book capital, is approved by the Group Risk Management Committee once a year. Thereafter, Kookmin Bank calculates economic capital every month for its business groups and bank-wide based on attributed economic capital in accordance with the risk appetite as approved by the Group Risk Management Committee, and measures and reports profiles of credit risk on a bank-wide level and by business group regularly to its relevant business groups and senior management.

We use expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. We use the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from our internal database. With respect to large corporate borrowers, we also use information provided by external credit rating services to calculate default rates and recovery rates.

Our credit risk management processes include:

- establishing credit policy;
- credit evaluation and approval;
- industry assessment;
- total exposure management;
- collateral evaluation and monitoring;
- credit risk assessment;
- early warning and credit review; and
- post-credit extension monitoring.

Credit Evaluation

Kookmin Bank evaluates the ability of all loan applicants to repay their debts before it approves any loans, except for loans guaranteed by letters of guarantee issued by the Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, and for loans fully secured by deposits. Kookmin Bank assigns each borrower or guarantor a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system. Factors that Kookmin Bank considers in assigning credit ratings include both financial factors and non-financial factors, such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry. The credit rating process differs according to the type, size and characteristics of a borrower.

Kookmin Bank uses its internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, Kookmin Bank uses several credit rating systems for its customers. The nature of the credit rating system used for a particular borrower depends on whether the borrower is an individual, a “small office/home office” customer, a small- and medium-sized enterprise or a large company. For large companies, Kookmin Bank has 17 credit ratings, ranging from AAA to D. For small- and medium-sized enterprises, it has 15 credit ratings ranging from AA to D. For retail customers, it has 13 credit ratings ranging from grade 1 to grade 13.

Based on the credit rating of a borrower, Kookmin Bank applies different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. Kookmin Bank also uses these credit ratings in evaluating its bank-wide risk management strategy. Factors Kookmin Bank considers in making this evaluation include the profitability of each company or transaction, performance of each business unit and portfolio management. Kookmin Bank monitors the credit status of borrowers and collect information to adjust its ratings appropriately. If Kookmin Bank changes a borrower’s credit rating, it will also change the credit policies relating to that borrower and may also change the policies underlying its loan portfolio.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans. Kookmin Bank’s processing center staff reviews mortgage loans and retail loans secured by real estate or guarantees. Branch staff employees of Kookmin Bank forward loan applications to processing centers. However, in the case of loans secured by deposits with Kookmin Bank, its branch staff approves such loans. Kookmin Bank makes lending decisions based on its assessment of the value of the collateral, debt service capability and the borrower’s score generated from its credit scoring systems.

For mortgage loans and loans secured by real estate, Kookmin Bank evaluates the value of the real estate offered as collateral using a database it has developed that contains information about real estate values throughout Korea. Kookmin Bank also uses information from a third party provider about the real estate market in Korea, which gives it up-to-date market value information for Korean real estate. In addition, Kookmin Bank’s processing center staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies. Kookmin Bank bases decisions regarding the approval of such loans primarily on the results of its credit scoring systems.

For loans secured by deposits, Kookmin Bank will generally grant loans up to 95% of the deposit amount if it holds the deposit.

With respect to mortgage loans and secured retail loans, Kookmin Bank screens customers based on various items on its checklist that indicate whether the customer may have deteriorating credit using internal information and rating information from credit bureaus. Kookmin Bank also evaluates debt service capability for eligible customers pursuant to certain checklist items, such as type of residence, profession, family information, annual income, age, credit card overdue information, transaction history (with both it and other financial institutions) and other relevant credit information.

Kookmin Bank generally decides whether to evaluate a loan application within three to five days after recording the relevant information in its credit scoring systems.

Unsecured Retail Loans. Kookmin Bank reviews applications for unsecured retail loans in accordance with its credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields uniform results regardless of the user, that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and that it can be updated easily to reflect changing market conditions by adjusting how each factor is weighted. The staff of Kookmin Bank’s processing centers reviews the results of the credit scoring system based on information input by its branch staff and, if approved, issues the loan.

Kookmin Bank's credit scoring systems take into account factors including borrower's income, assets, profession, age, transaction history (with both it and other financial institutions) and other relevant credit information. The systems rank each borrower in an appropriate grade, and that grade is used as a factor in deciding whether to approve loans as well as to determine loan amounts.

Kookmin Bank generally bases its decisions on the results of its credit scoring systems to evaluate applications. However, a credit officer may overturn the results of the credit scoring systems, in certain circumstances.

Corporate Loan Approval Process

We approve corporate loans at different levels of our organization depending on the size and type of the loan, the credit risk level assessed by the credit rating system, whether the loan is secured by collateral and, if secured, the value of the collateral. The lowest level of authority is the branch staff employee of Kookmin Bank, who can approve small loans and loans that have the lowest range of credit risk. Larger loans and loans with higher credit risk are approved by higher levels of authority depending on where they fall in a matrix of loan size and credit risk. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, more than one entity may review the application, although generally loan applications are reviewed only by the entity having corresponding authority to approve the loan.

Kookmin Bank evaluates all of its corporate borrowers by using credit rating systems, except for applicants whose borrowings are fully secured by deposits or applicants who have obtained third-party guarantees from the government or certain other very highly rated guarantors. See "—Credit Evaluation."

For owner-operated enterprises (which we refer to as SOHOs) with total outstanding loans of less than (Won)1 billion, Kookmin Bank has put in place a SOHO credit rating system, which adopts simplified credit evaluation modeling procedures. This system consists of a scoring model, a qualitative credit assessment (or QCA) model and a preliminary examination checklist. The scoring model analyzes information with respect to the customer's personal information and bank transaction history. The QCA model analyzes information about business capability, operating capability, management capability, transaction reliability, documentary reliability and financial stability. The preliminary examination checklist is based on information regarding the customer's credit delinquencies, loans and outstanding credit card debt. This system classifies customers into 13 possible credit ratings.

For SOHOs with total outstanding loans of (Won)1 billion or more, Kookmin Bank has put in place a separate credit rating system known as "SOHO CRS." For other small- and medium-sized enterprises, Kookmin Bank has put in place a similar credit rating system known as CRS. For large corporations, Kookmin Bank has put in place a similar credit rating system known as LCRS. For financial institutions, certain non-profit organizations and public institutions, Kookmin Bank has put in place a similar credit rating system known as FNP CRS. The SOHO CRS, the CRS, the LCRS and the FNP CRS models consist of the following three parts:

- *Financial Model.* The financial model uses the borrower's current status and trend of financial ratios calculated using its financial statements. The financial model classifies potential borrowers into one of three size categories and one of five types of industry. This model incorporates logistic regression and statistical methods, which use financial ratios such as stability ratio, cash flow ratio, profitability ratio and turnover ratio to make credit determinations.
- *QCA Model.* The QCA model uses various qualitative factors, such as future repayment capability, market prospects, management capability and business capability, to evaluate borrowers. The factors that are evaluated and the weighting given to each factor vary by type of industry and size of company.
- *Default Signal Check Model.* The default signal check model checks the consistency of the preliminary rating. This model checks various factors, including financial ratios with low scores, any non-quantitative

factors that may cause a corporate default and any information arising from past experience, to determine the likelihood of a future default. The results of the default signal check model may be used to cap a borrower's credit grade.

In addition to the three parts outlined above, the SOHO CRS also includes a "CEO Evaluation Model," which analyzes information with respect to personal information and bank transaction history of the individual owner of such SOHO.

We often refer to corporate information gathered or ratings assigned by external credit rating agencies, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation, in order to improve the accuracy of our credit ratings.

Credit Card Approval Process

We make decisions on all credit card approvals based on the Financial Supervisory Service standard of review for payment ability (such as the occupation and income of the applicant), as well as a combination of KB Kookmin Card's internal application scoring system and a credit scoring system developed by independent credit bureaus.

KB Kookmin Card's application scoring system reflects various credit information, including basic customer information (such as credit history), transaction history with it, if any, delinquency and transaction history with other card companies and financial institutions and credit information provided by the Korea Federation of Banks and other credit bureaus. KB Kookmin Card also considers repayment ability, total assets, total outstanding debts and the length of the applicant's relationship, if any, and past contribution to our profitability, if any.

The credit scoring system developed by credit bureaus, reflects various sources of information regarding the credit risk of customers, including delinquency and transaction history with other credit card companies and financial institutions.

On the basis of the standard of review for payment ability and the combination of the scores from our application scoring system and the credit scoring system developed by independent credit bureaus, KB Kookmin Card establishes, among other things, the term of any new approvals, initial limits and differentiation of fee rates with respect to its credit cards. KB Kookmin Card's systems allow it to differentiate applicants into groups that receive immediate credit card approval or rejection, or that may require it to further investigate that applicant's credit qualifications. The initial limits of new applicants are based on their estimated monthly income, which is based on their occupation and the value of their personal assets. KB Kookmin Card applies its fee rates to applicants differently according to risk premium and profitability.

Total Exposure Management

We establish and manage total exposure limits for corporations, *chaebols* and industries, as well as certain small- and medium-sized enterprises, in order to optimize the use of credit availability and avoid excessive risk concentration. We establish total exposure limits for large corporations to which we have exposures (in the form of securities or loans) of over (Won)5 billion, small- and medium-sized enterprises to which we have exposures (in the form of securities or loans) of over (Won)20 billion and *chaebols* designated by the Financial Supervisory Service or by Kookmin Bank, by reviewing factors such as their industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by peer group, as defined by us, by reviewing the "exposure at default," nonpayment ratio, sales growth ratio and share of total exposure for each industry. The guidelines used to set these total exposure limits are approved by Kookmin Bank's Risk Management Council after review by the Credit Risk Management Subcommittee.

Kookmin Bank's maximum exposure limit is within 20% of its Tier I and Tier II capital for a single *chaebol*, and within 10% of its Tier I and Tier II capital for an individual large corporation.

We manage and control exposure limits on a daily basis. The principal system that we use for this purpose is the Total Exposure Management System. This system allows us to monitor and control our total exposure to large corporations, *chaebols* and industries. We monitor our exposure to large corporations to which we have an exposure of (Won)5 billion or more, individual corporations to which we have an exposure of more than (Won)20 billion, and also our exposure to the 59 *chaebols*, which are comprised of the 37 largest *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures as well as 22 *chaebols* selected for monitoring by the Executive Vice President of Kookmin Bank's Risk Management Division. We also monitor our exposure to industries by peer groups. Our Total Exposure Management System integrates all of our credit-related risk including credit extended by our overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency-denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper, corporate bonds and other securities and derivatives.

Collateral Evaluation and Monitoring System

Kookmin Bank uses the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral it holds. The Collateral Evaluation and Monitoring System is a computerized collateral management system that can be accessed from Kookmin Bank's headquarters and its branches. Using this system, Kookmin Bank can more accurately assess the actual liquidation value of collateral, determine the recovery rate on its loans and use this information in setting its credit risk management and loan policies. Kookmin Bank can monitor the value of all the collateral a borrower provides and the value of that collateral based on its liquidation value. When appraising the value of real estate collateral, which makes up the largest part of Kookmin Bank's collateral, Kookmin Bank consults a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of Korea are sold. Kookmin Bank appraises the value of collateral when it makes a loan, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Risk Management and Monitoring

Kookmin Bank's Credit Risk Department manages and regulates our loan portfolio policies. It also analyzes and monitors our loan portfolios and monitors our compliance with the applicable limits for credit risk. Moreover, it separately manages high-risk products, such as real estate project financing loans and cross-market derivative products, by setting appropriate limits.

Credit Review

Kookmin Bank's credit review function is independent of the business groups which manage our assets. Its Credit Review Department:

- reviews internal credit regulations, policies and systems;
- analyzes the credit status of selected loan assets and verifies the appropriateness of the credit evaluations/approvals made by branches and headquarters; and
- evaluates the corporate credit risk of potentially insolvent companies.

More specifically, Kookmin Bank's Credit Review Department continuously reviews the financial condition of selected borrowers with respect to their current debt, collateral, business, transactions with related parties and debt service capability. Based on such review, Kookmin Bank may adjust the borrower's credit rating, lending policy or asset quality classification of the loan provided to the borrower, depending on the applicable circumstances. Kookmin Bank also regularly reviews other aspects of the lending process, including industries and regions in

which its borrowers operate and the quality of its domestic and overseas assets. Kookmin Bank's industry reviews focus on growth, stability, competition and ability to adapt to a changing environment. Based on the results of a particular industry review, Kookmin Bank may revise the total exposure limit assigned to that industry and lending policy for each company within that industry. When a review takes place, Kookmin Bank may adjust not only credit ratings of its borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or its credit policies. Credit review results are reported to Kookmin Bank's chief risk officer and its Risk Management Committee on a quarterly basis.

Kookmin Bank's Credit Review Department also conducts on-site reviews of selected branches and related credit analysis centers which are experiencing increasing delinquency ratios and bad debts. During these visits Kookmin Bank examines the loan processes and recommend improvement plans and appropriate follow-up measures.

Also, based on guidelines provided by the Financial Supervisory Service to all Korean banks, Kookmin Bank operates a corporate credit risk assessment program to facilitate the identification of weak companies and possible commencement of corporate restructuring. Through this program, Kookmin Bank, together with other banks, is able to detect symptoms of financially troubled companies at an early stage, assess related credit risk and support the normalization of companies that are likely to turnaround through a workout process, or seek to liquidate those companies that are not likely to recover.

Kookmin Bank's Credit Review Department also analyzes issues related to credit risk and provides information necessary for the formulation of effective credit policies and strategies and for effective credit risk management.

Market Risk Management

The major risk to which we are exposed is interest rate risk on debt instruments and interest-bearing securities and, to a lesser extent, equity risk and foreign exchange risk. The financial instruments that expose us to these risks are securities and financial derivatives. We are not exposed to significant commodity risk, the other recognized form of market risk, as we allow only back-to-back transactions with respect to commodities. We are also exposed to interest rate risk and liquidity risk in Kookmin Bank's banking book. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Kookmin Bank's Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee of Kookmin Bank, which is chaired by Kookmin Bank's chief risk officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by Kookmin Bank's Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilization, sensitivity analysis and VaR results for our trading activities.

Kookmin Bank's Asset Liability Management Committee is responsible for day-to-day interest rate and liquidity risk management for its non-trading activities. The committee meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Asset Liability Management Committee, acting through Kookmin Bank's Financial Management Department, review Kookmin Bank's interest rate and liquidity gap position monthly, formulate a view on interest rates, establishing strategies with respect to deposit and lending rates and review the business profile and its impact on asset and liability management.

To ensure adequate interest rate and liquidity risk management, we have assigned the responsibilities for our asset and liability management risk control to Kookmin Bank's Risk Management Department in Kookmin Bank's Risk Management Division, which monitors and reviews the asset and liability management risk procedures and activities of Kookmin Bank's Financial Management Department, and independently reports to the management on the related issues.

Market Risk Management for Trading Activities

Our trading activities consist of:

- trading activities for our own account to realize short-term trading profits in Won-denominated debt and equities markets and foreign exchange markets based on our short-term forecast of changes in the market situation; and
- trading activities involving derivatives, such as swaps, forwards, futures and option transactions, to realize profits primarily from arbitrage transactions and, to a lesser extent, from selling derivative products to our customers and to hedge market risk incurred from those activities. In addition, certain derivative products that we use to hedge our own market risk are classified as trading activities as they do not qualify for hedge accounting treatment under U.S. GAAP. We believe, however, that certain of these products are effective as economic hedges.

We use derivative instruments to hedge our market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of our hedging strategy is to manage our market risk within established limits. We use the following hedging instruments to manage relevant risks:

- to hedge interest rate risk arising from its trading activities, the Trading Department of Kookmin Bank occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;
- to hedge equity risk arising from its trading activities, the Trading Department of Kookmin Bank selectively uses stock index futures;
- to hedge interest rate risk and foreign exchange risk arising from our foreign currency-denominated asset and liability positions as well as our trading activities, the Trading Department, the Fund Management Department and Investment Banking Department of Kookmin Bank use interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options; and
- to change the interest rate characteristics of certain assets and liabilities after the original investment or funding, we use swaps. For example, depending on the market situation, we may choose to obtain fixed rate funding instead of floating rate funding if we believe that the terms are more favorable, which we can achieve by entering into interest rate swaps.

We generally manage our market risk at the portfolio level. To control our exposure to market risk, we use EC limits set by Kookmin Bank's Risk Management Council for Kookmin Bank and at the group and department levels within Kookmin Bank, VaR, position and stop loss limits set by Kookmin Bank's Risk Management Council for Kookmin Bank and at the group level within Kookmin Bank, and VaR, position, stop loss and sensitivity limits (PVBP, Delta, Gamma, Vega) set by Kookmin Bank's Market Risk Management Subcommittee at the department level within Kookmin Bank. We prepared our risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Service.

In addition, in connection with our adoption of ASC 820-10, we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. See "Item 5A. Operating Results—Critical Accounting Policies—Valuation of Securities and Financial Instruments" and Notes 1 and 29 of the notes to our consolidated financial statements. For example, each year, Kookmin Bank's Risk Management Department reviews the existing pricing and valuation models, with a focus on their underlying modeling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with Kookmin Bank's Trading Department, the Risk Management Department recommends potential valuation models to Kookmin Bank's Fair Value Evaluation Committee. Upon approval by Kookmin Bank's Fair Value Evaluation Committee, the selected valuation models are reported to its Market Risk Management Subcommittee.

We monitor market risk arising from trading activities of our business groups and departments. The market risk measurement model we use for both our Won-denominated trading operations and foreign currency-denominated trading operations is implemented through our integrated market risk management system called Adaptiv, which enables us to generate consistent VaR numbers for all trading activities.

Value at Risk analysis. We use daily VaR to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. We use a 99% single tail confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days.

VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss. VaR is most appropriate as a risk measure for trading positions in liquid capital markets and will understate the risk associated with severe events, such as a period of extreme illiquidity.

In order to measure VaR, we use the “variance-covariance method,” which takes into account the diversification effects among different risk categories as well as within the same risk category. Different VaR methodologies and distributional assumptions could produce a materially different VaR.

The following table shows Kookmin Bank’s daily VaRs as of December 31, 2008, 2009 and 2010, at a 99% confidence level for a one-day holding period, for interest risk, equity risk and foreign exchange risk relating to our trading activities. The following figures were calculated on a non-consolidated basis.

	As of December 31,		
	2008	2009	2010
	(in billions of Won)		
Risk categories:			
Interest risk	(Won)7.5	(Won)8.9	(Won)4.8
Equity risk	2.1	3.6	0.5
Foreign exchange risk	2.9	5.8	5.2
Less: diversification	4.9	8.5	3.7
Diversified VaR for overall trading activities	7.6	9.8	6.8

Back-Testing. We conduct back testing on a daily basis to validate the adequacy of our market risk model. In back testing, we compare both the actual and hypothetical profit and loss with the VaR calculations and analyze any results that fall outside our predetermined confidence interval of 99%.

Stress testing. In addition to VaR, which assumes normal market situations, we use stress testing to assess our market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to Kookmin Bank’s stress testing, we estimate that as of December 31, 2010, Kookmin Bank’s trading securities portfolio, which represents most of our trading risk, could have lost (Won)157 billion for an assumed short-term extreme decline of approximately 25% in the equity market and an approximate 113 basis point increase in interest rates under an abnormal stress environment.

We monitor the impact of market turmoil or any abnormality by conducting stress tests and confirming that the results are within our market risk limits. If the impact is large, Kookmin Bank's chief risk officer may request that our portfolio be restructured or other appropriate action be taken.

Interest Risk

Interest risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our trading accounts are marked-to-market daily, we manage the interest risk related to our trading accounts using market value-based tools such as VaR and sensitivity analysis. As of December 31, 2010, the VaR of Kookmin Bank's interest risk from trading was (Won)5 billion and the weighted average duration, or weighted average maturity, of its Won-denominated trading debt securities was approximately two years.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets and liabilities that are denominated in currencies other than Won, as well as off-balance sheet items such as foreign exchange forwards and currency swaps.

Prior to August 2010, assets and liabilities denominated in U.S. dollars, Japanese yen, and Euro typically accounted for the majority of our foreign currency assets and liabilities. Beginning in August 2010, the Kazakhstan tenge has accounted for the majority of our foreign currency assets and liabilities. Until August 2010, our investment in JSC Bank CenterCredit, a Kazakhstan Bank, was fully hedged against currency risk. See "Item 4B. Business Overview—Capital Markets Activities and International Banking—International Banking." However, in August 2010, we decided to discontinue such currency hedge as the value of the Won had remained relatively stable against the Kazakhstan tenge for a prolonged period of time.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions, currency options and currency swaps to obtain our net foreign currency open position. Kookmin Bank's Risk Management Council and Market Risk Management Subcommittee oversee Kookmin Bank's foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established on a combined basis for our domestic operations and foreign branches.

The following table shows Kookmin Bank's non-consolidated net open positions at the end of 2008, 2009 and 2010. Positive amounts represent long positions and negative amounts represent short positions. The net open positions held by subsidiaries other than Kookmin Bank are not significant.

	As of December 31, ⁽¹⁾		
	2008	2009	2010
	(in millions of US\$)		
Currency:			
U.S. dollars	US\$ 13.9	US\$ 71.5	US\$ (30.3)
Japanese yen	4.7	18.8	(6.9)
Euro	3.0	45.9	1.8
Kazakhstan tenge	0.0	(1.8)	296.5
Others	32.7	(1.4)	12.9
Total	<u>US\$ 54.3</u>	<u>US\$ 133.0</u>	<u>US\$ 274.0</u>

⁽¹⁾ Amounts prepared on a non-consolidated basis.

Equity Price Risk

Equity price risk results from our equity trading portfolio in Won since we do not have any trading exposure to shares denominated in foreign currencies.

The equity trading portfolio in Won consists of exchange-traded stocks and nearest month or second nearest month futures contracts under strict limits on diversification as well as position limits and stop loss limits.

Kookmin Bank's Risk Management Council and Market Risk Management Subcommittee set annual and monthly stop loss limits that are monitored by Kookmin Bank's Risk Management Department. In order to ensure timely action, the stop loss limit of individual securities is monitored by the relevant middle office.

As of December 31, 2010, Kookmin Bank's equity trading position was (Won)27 billion.

Derivative Market Risk

Our derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures and currency options. These activities consist primarily of the following:

- arbitrage transactions to make profit from short-term discrepancies between the spot and forward derivative markets or within the derivative markets;
- sales of tailor-made derivative products that meet various needs of our corporate customers and related transactions to reduce our exposure resulting from those sales;
- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since our derivative trading activities are primarily driven by arbitrage and customer deals with very limited open trading positions.

Market Risk Management for Non-Trading Activities

Interest Rate Risk

Our principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives) and our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

Our principal interest rate risk management objectives are to generate stable net interest revenues and to protect our asset value against interest rate fluctuations. We principally manage this risk for our non-trading activities by analyzing and managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities. Although we have used hedging instruments only on a limited basis for interest rate risk management for our non-trading assets and liabilities, to date the Korean financial market has not been sufficiently developed for this purpose. We expect to increase our use of derivatives to hedge this risk in the near future as the Korean financial market becomes more sophisticated.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. We perform interest rate gap analysis for Won-denominated and foreign currency-denominated assets and trust assets on a monthly basis or more frequently when deemed necessary.

Interest Rate Gap Analysis. We perform interest rate gap analysis based on interest rate repricing maturities of assets and liabilities. However, for some of our assets and liabilities with either no maturities or unique characteristics, we use or assume certain maturities, including the following examples:

- With respect to asset maturities, we assume remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and use the actual maturities for prime rate-linked loans with remaining maturities of less than one year.
- With respect to liability maturities, adapting the regression analysis using last 36 months' average balance, we assume "non-core" and "rate sensitive core" demand deposits to have remaining maturities of three months or less; and we assume "rate insensitive core" demand deposits to have remaining maturities between one year and four years.

The following table shows Kookmin Bank's non-consolidated interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2010, based on our Korean GAAP accounts, which vary in certain significant respects from our accounts prepared in accordance with U.S. GAAP.

	As of December 31, 2010 ⁽¹⁾					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages)					
Won-denominated Interest-earning assets:						
Loans	(Won)108,916	(Won)44,737	(Won) 11,237	(Won) 2,683	(Won) 1,270	(Won)168,842
Securities	3,965	1,132	4,417	13,294	8,859	31,666
Others	13,344	1,555	1,238	1,108	95	17,340
Total	<u>(Won)126,225</u>	<u>(Won)47,423</u>	<u>(Won) 16,893</u>	<u>(Won) 17,085</u>	<u>(Won)10,223</u>	<u>(Won)217,849</u>
Interest-bearing liabilities:						
Deposits	(Won) 75,947	(Won)18,039	(Won) 44,197	(Won) 29,233	(Won)13,185	(Won)180,601
Borrowings	3,733	—	—	—	—	3,733
Others	9,807	1,757	5,474	5,253	6,142	28,433
Total	<u>(Won) 89,487</u>	<u>(Won)19,796</u>	<u>(Won) 49,671</u>	<u>(Won) 34,486</u>	<u>(Won)19,327</u>	<u>(Won)212,768</u>
Sensitivity gap	36,737	27,627	(32,778)	(17,402)	(9,104)	5,081
Cumulative gap	36,737	64,365	31,587	14,185	5,081	
% of total assets	16.9%	29.5%	14.5%	6.5%	2.3%	
Foreign currency-denominated Interest-earning assets:						
Due from banks	(Won) 208	(Won) 26	(Won) 23	(Won) —	(Won) —	(Won) 257
Loans	5,588	669	340	432	17	7,046
Securities	465	85	54	183	379	1,167
Others	3,407	1,066	280	48	0	4,800
Total	<u>(Won) 9,667</u>	<u>(Won) 1,847</u>	<u>(Won) 697</u>	<u>(Won) 662</u>	<u>(Won) 396</u>	<u>(Won) 13,269</u>
Interest-bearing liabilities:						
Deposits	(Won) 1,458	(Won) 1,376	(Won) 79	(Won) 2	(Won) —	(Won) 2,915
Borrowings	4,290	1,529	796	90	—	6,706
Others	1,861	80	59	1,007	—	3,007
Total	<u>(Won) 7,609</u>	<u>(Won) 2,985</u>	<u>(Won) 934</u>	<u>(Won) 1,100</u>	<u>(Won) —</u>	<u>(Won) 12,628</u>
Sensitivity gap	2,058	(1,138)	(238)	(437)	396	641
Cumulative gap	2,058	920	682	245	641	
% of total assets	15.5%	6.9%	5.1%	1.8%	4.8%	

⁽¹⁾ The numbers are prepared on a non-consolidated basis in accordance with Korean GAAP for internal management purposes.

Duration Gap Analysis. We also perform duration gap analysis to measure and manage interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses more on accounting income as opposed to the market value of the assets and liabilities. We emphasize duration gap analysis because, in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. In 2010, our asset and liability duration gap was negative and it moved between (-)0.334 years and (-)0.237 years. Accordingly, our net asset value would have declined between (Won)528 billion and (Won)731 billion if interest rates had decreased by one percentage point.

For duration gap analysis we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

The following table, which was prepared in accordance with Korean GAAP, shows duration gaps and net asset value changes when interest rates decrease by one percentage point as of the specified dates on a non-consolidated basis.

<u>Date</u>	<u>Asset duration</u> (in years)	<u>Liability duration</u> (in years)	<u>Duration gap</u> (in years)	<u>Net asset value change</u> (in billions of Won)
June 30, 2008	0.5249	0.7890	(0.222)	(459)
December 31, 2008	0.4923	0.8304	(0.302)	(648)
June 30, 2009	0.4801	0.7949	(0.291)	(643)
December 31, 2009	0.4549	0.7814	(0.298)	(648)
June 30, 2010	0.4917	0.7680	(0.253)	(563)
December 31, 2010	0.5444	0.8177	(0.246)	(542)

We set interest rate risk limits using historical interest rate volatility of financial bonds and duration gaps with respect to expected asset and liability positions based on our annual business plans. The Financial Management Department in Kookmin Bank's Strategy and Finance Management Group submits interest rate gap analysis reports, duration gap analysis reports, sensitivity reports and interest rate risk limit compliance reports monthly to Kookmin Bank's Asset Liability Management Committee and quarterly to Kookmin Bank's Risk Management Committee.

The following table, which was prepared in accordance with Korean GAAP, summarizes Kookmin Bank's interest rate risk on a non-consolidated basis, taking into account asset and liability durations as of December 31, 2010.

	As of December 31, 2010					Total
	3 Months or Less	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	
(in billions of Won, except percentages and maturities in years)						
Won-denominated:						
Asset position	(Won)126,225	(Won)47,423	(Won) 16,893	(Won) 17,085	(Won)10,223	(Won)217,849
Liability position	89,487	19,796	49,671	34,486	19,327	212,768
Gap	36,737	27,627	(32,778)	(17,402)	(9,104)	5,081
Average maturity	0.206	0.373	0.722	2.279	2.779	
Interest rate volatility	1.58%	2.39%	2.89%	2.42%	2.52%	
Amount at risk	120	246	(684)	(960)	(638)	(1,915)
Foreign currency-denominated:						
Asset position	(Won) 9,667	(Won) 1,847	(Won) 697	(Won) 662	(Won) 396	(Won) 13,269
Liability position	7,609	2,985	934	1,100	0	12,628
Gap	2,058	(1,138)	(238)	(437)	396	641
Average maturity	0.791	1.330	1.520	0.677	4.368	
Interest rate volatility	0.55%	0.65%	1.00%	1.90%	2.20%	
Amount at risk	(9)	10	4	6	(38)	(28)

Foreign Exchange Risk

We manage foreign exchange rate risk arising from our non-trading operations together with such risks arising from our trading operations. See “—Market Risk Management for Trading Activities—Foreign Exchange Risk” above.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans, to extend other credits and to invest in securities. Our liquidity management goal is to meet all our liability repayments on time and fund all investment opportunities even under adverse conditions. To date, we have not experienced significant liquidity risk.

We maintain liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. We also manage liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we could raise by issuing securities. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning assets or securities.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than 90 days), issuing debentures and borrowing from the Bank of Korea. We use the majority of funds we raise to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, we manage liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. Generally, the average initial contract maturity of our new Won-denominated time deposits was about 11 months, while during the same period most of our new loans and securities had maturities over one year.

We manage liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0% and a foreign liquidity ratio of at least 85.0%. The Financial Services Commission defines the Won liquidity ratio as Won liquid assets (including marketable securities) due within one month divided by Won liabilities due within one month.

Kookmin Bank’s Fund Management Department is responsible for daily liquidity risk management of its Won and foreign currency exposure. It reports monthly plans for funding and operations to the Asset Liability Management Committee of Kookmin Bank, which discusses factors such as interest rate movements and maturity structures of its deposits, loans and securities.

The following table shows Kookmin Bank's liquidity status and limits for Won and foreign currency accounts as of December 31, 2010 in accordance with Financial Services Commission regulations:

<u>Won accounts:</u>	<u>1 Month or Less</u> (in billions of Won, except percentages)
Assets (A)	(Won)51,880
Liabilities (B)	41,131
Liquidity gap	10,749
Liquidity ratio (A/B)	126.13%
Limit	100.00%

	<u>7 Days or Less</u>	<u>1 Month or Less</u>	<u>3 Months or Less</u>
	(in millions of US\$, except percentages)		
Foreign currency assets	US\$ 4,417	US\$ 7,955	US\$ 17,060
Foreign currency liabilities	4,237	8,844	17,913
Maturity gap	180	(890)	(853)
Cumulative gap (A)	180	(890)	(853)
Total assets (B)	38,089	38,089	38,089
Liquidity gap ratio (A/B)	0.47%	(2.34)%	95.24 ⁽¹⁾ %
Limits	(3.00)%	(10.00)%	85.00%

⁽¹⁾ Liquidity ratio.

The Financial Management Department in Kookmin Bank's Strategy and Finance Management Group reports whether we are complying with these limits monthly to Kookmin Bank's Asset Liability Management Committee and quarterly to Kookmin Bank's Risk Management Committee.

Operational Risk Management

Overall Status

Basel II currently defines operational risk as the "risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." However, there is still no complete consensus on the definition of operational risk in the banking industry. We define operational risk broadly to include all financial and non-financial risks, other than credit risk, market risk, interest rate risk and liquidity risk, that may arise from our operations that could negatively impact our capital, including the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under Basel II. Our operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the bank.

We manage our operational risk primarily through Kookmin Bank, our banking subsidiary. Kookmin Bank uses an operational risk management framework meeting the Basel II Advanced Measurement Approach, or AMA, under which Kookmin Bank:

- calculates its operational risk VaR on a quarterly basis using the "loss distribution approach VaR" and "scenario based VaR" methodology, and monitors operational risk in terms of Key Risk Indicators, or KRI, using tolerance levels for each indicator;
- executes integrated compliance and operational risk Control Self Assessments, or CSAs, that enhance the effect on internal controls, which Kookmin Bank employees are able to access and use for process improvement;
- collects and analyzes internal and external loss data;

- conducts scenario analyses to evaluate exposure to high-severity events;
- manages certain insurance-related activities relating to insurance strategies established to mitigate operational risk;
- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site.
- refines bank-wide operational risk policies and procedures;
- provides appropriate training and support to business line operational risk managers; and
- reports overall operational risk status to our senior management.

Each of Kookmin Bank's relevant business units has primary responsibility for the management of its own operational risk. In addition, the Operational Risk Unit, which is part of Kookmin Bank's Risk Management Department, monitors bank-wide operational risk. Kookmin Bank also has internal control managers in all of its subsidiaries, departments and branches who periodically conduct CSAs and monitor KRIs. Through this method, Kookmin Bank is able to ensure proper monitoring and measurement of operational risk in each of its business groups.

Internal Control

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. Each of our subsidiaries establishes its own internal control system in accordance with the group-level internal control principles. Our Audit Committee, Audit Department and Compliance Supporting Department are responsible for monitoring and advising our subsidiaries regarding their internal control systems. Our Audit Committee, which consists of five non-executive directors, is an independent authority that evaluates the effectiveness and efficiency of our group-wide internal control systems and business processes and monitors our subsidiaries' compliance with such systems and processes, as well as reviews the reliability of our financial statements to secure the transparency and stability of our management (including through the activities of our independent auditor). In particular, we have established group-wide internal guidelines with respect to our subsidiaries' reporting requirements. Our subsidiaries review their operations and their level of compliance with internal control systems and business processes on a periodic basis and, as part of this process, they are required to report any problems discovered and any remedial actions taken to our chief compliance officer, who is responsible for reporting to our Audit Committee. Based on the results of these reports, or on an ad hoc basis in response to any problem or potential problem that it identifies, the Audit Committee may direct a subsidiary to conduct an audit of its operations or, if it chooses to do so, conduct its own audit of those operations. The Audit Committee interacts on a regular basis with our Audit Department, Compliance Supporting Department and our independent auditors. In carrying out these duties, the Audit Committee ultimately protects our property for the benefit of our shareholders, investors and customers by independently monitoring our management.

Our Audit Department supports our Audit Committee in monitoring our accounting and business operations and overseeing the management of our subsidiaries' internal control systems by performing the following activities:

- general audits, which include full-scale audits of the overall operations performed according to an annual audit plan, and sectional audits of selected operations; and
- special audits of troubled or weak operations, which are performed when our Audit Committee or executive officer responsible for audits deems it necessary or pursuant to requests by our board, executive officers or supervisory authorities, such as the Financial Supervisory Service.

The Financial Supervisory Service periodically conducts a general examination of our operations. It also performs specific audits on particular aspects of our operations, such as risk management, credit monitoring and liquidity, as the need arises.

Kookmin Bank's audit division consists of two departments, the Channel Audit Department and the Management Audit Department, and they are the execution bodies for its audit committee and support Kookmin Bank's management objectives by auditing the operations of its branches using a risk analysis system and reviewing the operations of its headquarters and subsidiaries through the use of "risk-based audit" in accordance with the "business measurement process" audit methodology, which requires that its Management Audit Department evaluate the risk and process of its business units and concentrate their audit capacity with respect to high risk areas.

As a result of recent regulatory trends, Kookmin Bank's audit division is continuing its efforts to establish an advanced audit system and value-added internal audit by introducing risk-based audit techniques.

Our Compliance Supporting Department operates a compliance system to ensure that all of our employees comply with the relevant laws and regulations. This system's main function is to establish and manage our compliance program, educate employees and management and improve our internal control process.

Legal Risk

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the financial industry remain untested. Our Compliance Supporting Department seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers.

IT System Operational Risk

The integrity of our IT systems, and their ability to withstand potential catastrophic events, are crucial to our continuing operations. Accordingly, we are continuing to strengthen our disaster recovery capabilities. In order to minimize operational risks relating to our IT systems, we have implemented a multi-CPU system that runs multiple CPUs simultaneously on-site and ensures system continuity in case any of the CPUs fails. This system backs up our data systems at an off-site location on a real-time basis to ensure that our operations can be carried out normally and without material interruption in the event of CPU failure. Also, in order to protect our Internet banking services from system failures and cyber attacks, we process our Internet transactions through three separate data processing centers.

We currently test our disaster recovery systems on a quarterly basis, with the comprehensive testing including our branches and the main IT center's disaster recovery system. Our disaster recovery capabilities involve a number of operations other than our core banking operations, including credit card and call center transactions. Internally, our IT Service Operations Department monitors all of our computerized network processes and IT systems. This department monitors and reports on any unusual delays or irregularities reported by our branches. In addition, our IT Planning Department is responsible for the daily monitoring of our entire information security system.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Fees and Charges

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs	Up to \$0.05 per ADS issued
Cancellation of ADSs	Up to \$0.05 per ADS canceled
Distribution of cash dividends or other cash distributions	Up to \$0.02 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights.	Up to \$0.02 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to \$0.05 per ADS held
Depository Services	Up to \$0.02 per ADS held on the applicable record date(s) established by the depositary
Transfer of American depositary receipts	\$1.50 per certificate presented for transfer

As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depository Trust Company, or DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depository. You will receive prior notice of such changes.

Fees and Payments from the Depository to Us

In 2010, we received the following payments from the depository:

Reimbursement of listing fees:	\$ 38,000
Reimbursement of SEC filing fees:	\$ 52,357
Reimbursement of settlement infrastructure fees (including DTC fees):	\$ 60,932
Reimbursement of expenses related to proxy process (printing, postage and distribution) and ADS holders identification:	\$167,642
Reimbursement of legal fees:	\$ 31,414
Reimbursement of expenses related to our investor relations activities (investor conferences and investor relations agency fees, etc.):	\$524,385

In addition, as part of its service to us, the depository waives its fees for the standard costs and operating expenses associated with the administration of the ADS facility.

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

Item 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2010. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of December 31, 2010 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010. The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, which also audited our financial statements as of and for the year ended December 31, 2010, as stated in its report which is included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. RESERVED

Item 16A. *Audit Committee Financial Expert*

Our board of directors has determined that each of Seung Hee Koh and Jong Cheon Lee, our non-executive directors and members of our Audit Committee, qualifies as an “audit committee financial expert” and is independent within the meaning of this Item 16A.

Item 16B. *Code of Ethics*

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer and chief financial officer, as well as to our non-executive directors, non-standing directors and other officers and employees. Our code of ethics is available on our website at <http://www.kbfng.com>. If we amend the provisions of our code of ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Item 16C. *Principal Accountant Fees and Services*

Audit and Non-audit Fees

The following table sets forth the fees billed to us by independent registered public accounting firm Samil PricewaterhouseCoopers during the fiscal years ended December 31, 2009 and 2010:

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in millions of Won)	
Audit fees	(Won)4,735	(Won)5,474
Audit-related fees	295	3,062
Tax fees	—	—
All other fees	—	—
Total fees	<u>(Won)5,030</u>	<u>(Won)8,536</u>

Audit fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers in connection with the audits of:

- our annual financial statements and the review of our interim financial statements; and
- our special purpose entities in connection with the Korean Securities and Exchange Act or the Financial Investment Services and Capital Markets Act.

Audit-related fees in the above table are fees billed by Samil PricewaterhouseCoopers in connection with attestation of our financial statements under IFRS and our financial debenture offering services.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee pre-approves the engagement of our independent auditors for audit services with respect to our U.S. GAAP financial statements. Our Audit Committee has implemented a policy regarding pre-approval of certain other services provided by our independent auditors to our subsidiaries that the Audit Committee has deemed as not affecting their independence. Under this policy, pre-approvals for the following services to our subsidiaries have been granted by our Audit Committee to each of our subsidiaries' audit committees: (i) services related to the audit of financial statements prepared in accordance with Korean GAAP and internal controls under Korean laws and regulations; (ii) general tax advisory services; (iii) due diligence services; (iv) issuance of comfort letters in connection with offering of securities; and (v) educational services provided to employees.

Any other audit or permitted non-audit service must be pre-approved by the Audit Committee on a case-by-case basis. Our Audit Committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any "affiliated purchaser," as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 16F. Change in Registrant's Certifying Accountant

Not Applicable

Item 16G. Corporate Governance

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences:

NYSE Corporate Governance Standards

Director independence

Listed companies must have a majority of independent directors.

Executive Session

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

Nomination/Corporate Governance Committee

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

Audit Committee Additional Requirements

Listed companies must have an audit committee that is composed of more than three directors.

Shareholder Approval of Equity Compensation Plan Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

KB Financial Group

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as 8 out of 12 directors are non-executive directors.

Our non-executive directors hold monthly executive sessions in accordance with the Regulation of the Board of Directors.

Our Non-executive Director Nominating Committee is generally composed of four non-executive directors and our chief executive officer.

We maintain an Evaluation and Compensation Committee composed of five non-executive directors.

We maintain an Audit Committee composed of five non-executive directors. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our Audit Committee has five members, as described above.

We currently have three equity compensation plans: one providing for the grant of stock options to officers and directors; performance share agreements with certain of our directors; and an employee stock ownership plan, or ESOP.

All material matters related to our stock option plan are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders' approval.

Matters related to the performance share agreements or ESOP are not subject to shareholders' approval under Korean law.

We have adopted, but have not disclosed, corporate governance guidelines.

Item 17. FINANCIAL STATEMENTS**Not Applicable****Item 18. FINANCIAL STATEMENTS****Item 19. EXHIBITS**

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

(a) List of Financial Statements:

	<u>Page</u>
Audited consolidated financial statements of KB Financial Group and subsidiaries, prepared in accordance with U.S. GAAP	
<u>Reports of Samil PricewaterhouseCoopers, independent registered public accounting firm</u>	F-1
<u>Reports of Deloitte Anjin LLC, independent registered public accounting firm</u>	F-2
<u>Consolidated balance sheets as of December 31, 2009 and 2010</u>	F-3
<u>Consolidated statements of income and comprehensive income for the years ended December 31, 2008, 2009 and 2010</u>	F-5
<u>Consolidated statements of changes in total equity for the years ended December 31, 2008, 2009 and 2010</u>	F-7
<u>Consolidated statements of cash flows for the years ended December 31, 2008, 2009 and 2010</u>	F-9
<u>Notes to consolidated financial statements</u>	F-12

(b) Exhibits

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, KB Financial Group has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe KB Financial Group's actual state of affairs at the date of this annual report.

<u>Number</u>	<u>Description</u>
1.1*	Articles of Incorporation of KB Financial Group (translation in English).
2.1**	Form of Share Certificate of KB Financial Group's common stock, par value (Won)5,000 per share (translation in English).
2.2***	Form of Third Amended and Restated Deposit Agreement among KB Financial Group, Citibank N.A., as depositary, and all holders and beneficial owners from time to time of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt.
4.1**	Amended and Restated Strategic Alliance Agreement, dated as of August 27, 2003, between Kookmin Bank and ING Bank N.V.
4.2**	Agreement Dealing with the Establishment of KB Financial Holding Company, dated as of April 30, 2008, among Kookmin Bank, KB Asset Management Co., Ltd., ING Bank B.V. and ING Insurance International B.V.

<u>Number</u>	<u>Description</u>
4.3*	Assignment and Assumption Agreement, dated as of September 29, 2008, among Kookmin Bank, KB Financial Group and ING Bank N.V.
8.1****	List of subsidiaries of KB Financial Group.
11.1*	Code of Ethics.
12.1	Section 302 certifications.
13.1	Section 906 certifications.
15.1	Consent of Samil PricewaterhouseCoopers.
15.2	Consent of Deloitte Anjin LLC.

* Incorporated by reference to the registrant's filing on Form 20-F (No. 000-53445), filed on June 23, 2010.

** Incorporated by reference to the registrant's filing on Form 20-F (No. 000-53445), filed on June 15, 2009.

*** Incorporated by reference to the registrant's filing on Form F-6 (No. 333-153711), filed on September 29, 2008.

**** Incorporated by reference to Note 34 of the consolidated financial statements of the registrant included in this annual report.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KB FINANCIAL GROUP INC.
(Registrant)

/s/ Yoon-Dae Euh

(Signature)

Yoon-Dae Euh
Chairman and Chief Executive Officer
(Name and Title)

Date: June 20, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of KB Financial Group Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of changes in total equity and of cash flows present fairly, in all material respects, the financial position of KB Financial Group Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have also audited the adjustments to the 2008 financial statements to retrospectively apply the adoption of ASC 810-10-45-15, Noncontrolling Interest in Consolidated Financial Statements, as described in Note 1. In our opinion, such adjustments are appropriated and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2008 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2008 financial statements taken as a whole.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
June 20, 2011

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM -
CONSOLIDATED FINANCIAL STATEMENTS**

To the Board of Directors and Stockholders of KB Financial Group Inc.:

We have audited, before the effect of the adjustments to retrospectively apply the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15) discussed in Note 1 to the consolidated financial statements, the accompanying consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows of KB Financial Group Inc. and its subsidiaries (collectively referred to as the "Company") for the year ended December 31, 2008, all expressed in Korean Won, (the 2008 consolidated financial statements before the effects of the adjustments discussed in Note 1 to the 2008 consolidated financial statements are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such 2008 consolidated financial statements, before the effects of the adjustments to retrospectively apply the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15) discussed in Note 1 to the consolidated financial statements, present fairly, in all material respects, the results of operations and cash flows of KB Financial Group Inc. and its subsidiaries for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15) discussed in Note 1 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ DELOITTE ANJIN LLC
Seoul, Korea
May 22, 2009

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 and 2010

	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1)
	(In millions of Korean won)		(In thousands)
ASSETS			
Cash and cash equivalents	2,695,569	3,867,316	3,420,587
Restricted cash	6,050,241	3,359,465	2,971,400
Interest-bearing deposits in other banks	466,890	987,408	873,349
Call loans and securities purchased under resale agreements	2,036,142	2,849,529	2,520,369
Trading assets	7,721,555	6,084,813	5,381,933
Investments	33,245,391	33,911,415	29,994,175
Loans (net of allowance for loan losses of (Won)3,341,046 million in 2009 and (Won)4,247,326 million (\$ 3,756,701 thousand) in 2010)	193,454,326	192,947,019	170,658,959
Due from customers on acceptances	1,895,444	1,878,190	1,661,233
Premises and equipment, net	1,617,151	1,478,187	1,307,436
Accrued interest and dividends receivable	1,029,257	956,746	846,229
Security deposits	1,405,638	1,401,469	1,239,580
Goodwill	579,450	585,904	518,224
Other intangible assets, net	190,715	275,320	243,517
Other assets	1,467,663	1,169,221	1,034,160
Total assets	<u>253,855,432</u>	<u>251,752,002</u>	<u>222,671,151</u>
LIABILITIES			
Deposits:			
Interest bearing	166,078,921	176,846,197	156,418,006
Non-interest bearing	3,104,147	3,081,938	2,725,931
Call money	1,364,516	605,398	535,466
Trading liabilities	4,246,104	3,269,451	2,891,784
Acceptances outstanding	1,895,444	1,878,190	1,661,233
Other borrowed funds	8,176,286	8,775,200	7,761,543
Accrued interest payable	3,819,342	3,703,325	3,275,539
Secured borrowings	4,669,728	2,651,069	2,344,833
Long-term debt	39,569,909	30,080,132	26,605,460
Other liabilities	3,354,760	3,825,556	3,383,651
Total liabilities	<u>236,279,157</u>	<u>234,716,456</u>	<u>207,603,446</u>

Commitments and contingencies (Note 31)

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2009 and 2010

	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands)
	(In millions of Korean won)		
TOTAL EQUITY			
Common stock ((Won)5,000 par value, authorized 1 billion shares, 386,351,693 shares issued and 343,028,989 shares outstanding at 2009 and 2010)	1,931,758	1,931,758	1,708,614
Additional paid-in capital	7,200,553	7,210,213	6,377,333
Retained earnings	10,778,124	10,096,917	8,930,583
Accumulated other comprehensive income net of tax	244,651	373,163	330,058
Less: Treasury stock, at cost, 43,322,704 shares at 2009 and 2010	(2,615,518)	(2,615,518)	(2,313,389)
Total stockholders' equity	17,539,568	16,996,533	15,033,199
Noncontrolling interests	36,707	39,013	34,506
Total equity	<u>17,576,275</u>	<u>17,035,546</u>	<u>15,067,705</u>
Total liabilities and equity	<u>253,855,432</u>	<u>251,752,002</u>	<u>222,671,151</u>

The following table presents certain assets and liabilities of consolidated VIEs, which are included in the consolidated balance sheet above. The assets and liabilities in the table below exclude intercompany balances that eliminate in consolidation.

	<u>2010</u>	<u>2010</u> Translation into U.S. Dollars (Note 1) (In thousands)
	(In millions of Korean Won)	
Assets of consolidated VIEs included in total assets above (substantially all pledged as collateral)		
Investments	1,535,076	1,357,754
Loans	583,501	516,098
Other assets	100,297	88,712
Total assets of consolidated VIEs	<u>2,218,874</u>	<u>1,962,564</u>
Liabilities of consolidated VIEs included in total liabilities above		
Other borrowed fund	47,000	41,571
Secured borrowings	556,925	492,593
Other liabilities	82,568	73,030
Total liabilities of consolidated VIEs	<u>686,493</u>	<u>607,194</u>

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands, except per share amounts)
(In millions of Korean won, except per share amounts)				
Interest and dividend income				
Deposits in other banks	106,265	24,240	33,058	29,239
Loans, including fees	13,864,324	11,840,037	11,212,063	9,916,914
Trading assets	281,970	190,925	233,783	206,778
Investment securities	1,487,980	1,489,235	1,471,010	1,301,088
Call loans and securities purchased under resale agreements	87,903	45,683	86,085	76,141
Total interest and dividend income	<u>15,828,442</u>	<u>13,590,120</u>	<u>13,035,999</u>	<u>11,530,160</u>
Interest expense				
Deposits	6,313,614	5,450,318	4,709,337	4,165,343
Call money	121,099	67,251	24,563	21,725
Other borrowed funds	417,315	281,841	215,295	190,426
Secured borrowings	342,025	240,446	175,811	155,503
Long-term debt	2,165,600	2,191,573	1,845,538	1,632,352
Total interest expense	<u>9,359,653</u>	<u>8,231,429</u>	<u>6,970,544</u>	<u>6,165,349</u>
Net interest income	<u>6,468,789</u>	<u>5,358,691</u>	<u>6,065,455</u>	<u>5,364,811</u>
Provision for credit losses	2,313,454	2,203,993	3,568,040	3,155,882
Net interest income after provision for credit losses	<u>4,155,335</u>	<u>3,154,698</u>	<u>2,497,415</u>	<u>2,208,929</u>
Non-interest income				
Trust fees, net	165,459	188,980	212,819	188,235
Other fees and commission income	2,380,691	2,349,892	2,405,511	2,127,641
Net trading revenue	104,141	164,612	397,921	351,955
Net gain (loss) on investments	90,391	267,922	(27,291)	(24,138)
Other non-interest income	211,597	542,040	374,185	330,962
Total non-interest income	<u>2,952,279</u>	<u>3,513,446</u>	<u>3,363,145</u>	<u>2,974,655</u>
Non-interest expenses				
Salaries and employee benefits	2,334,983	2,217,554	2,781,645	2,460,327
Depreciation and amortization	407,187	431,007	359,568	318,033
Other administrative expenses	875,278	857,087	920,140	813,851
Credit card fees	373,780	417,282	555,808	491,604
Other fees and commissions	826,435	870,423	898,385	794,609
Other non-interest expenses	503,166	948,738	633,430	560,260
Total non-interest expenses	<u>5,320,829</u>	<u>5,742,091</u>	<u>6,148,976</u>	<u>5,438,684</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands, except per share amounts)
	(In millions of Korean won, except per share amounts)			
Income (loss) before income tax expense	<u>1,786,785</u>	<u>926,053</u>	<u>(288,416)</u>	<u>(255,100)</u>
Income tax expense	453,847	207,484	304,108	268,980
Net income (loss)	<u>1,332,938</u>	<u>718,569</u>	<u>(592,524)</u>	<u>(524,080)</u>
Net income (loss) attributable to noncontrolling interests, net of tax	<u>6,974</u>	<u>(2,072)</u>	<u>(4,409)</u>	<u>(3,900)</u>
Net income (loss) attributable to stockholders	<u>1,325,964</u>	<u>720,641</u>	<u>(588,115)</u>	<u>(520,180)</u>
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	91,626	(117,655)	(30,566)	(27,035)
Net unrealized gains (losses) on investment securities	431,269	(3,889)	158,999	140,633
Total other comprehensive income (loss), net of tax	<u>522,895</u>	<u>(121,544)</u>	<u>128,433</u>	<u>113,598</u>
Comprehensive income (loss)	<u>1,855,833</u>	<u>597,025</u>	<u>(464,091)</u>	<u>(410,482)</u>
Comprehensive income (loss) attributable to noncontrolling interests	6,974	(3,070)	(4,488)	(3,970)
Comprehensive income (loss) attributable to stockholders	<u>1,848,859</u>	<u>600,095</u>	<u>(459,603)</u>	<u>(406,512)</u>
Net income (loss) per common share				
Basic:				
Net income (loss) attributable to stockholders' equity	<u>4,012</u>	<u>2,215</u>	<u>(1,714)</u>	<u>(1,516)</u>
Diluted:				
Net income attributable to stockholders' equity	<u>4,012</u>	<u>2,215</u>	<u>(1,714)</u>	<u>(1,516)</u>
Weighted average basic common shares outstanding (In thousands)	<u>330,498</u>	<u>325,397</u>	<u>343,029</u>	<u>343,029</u>
Weighted average diluted common shares outstanding (In thousands)	<u>330,498</u>	<u>325,397</u>	<u>343,029</u>	<u>343,029</u>

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
TOTAL EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non- controlling Interest	Total equity
	Shares	Amount						
	(In millions of Korean won, except share data)							
Balance at January 1, 2008	336,353,034	1,681,896	5,404,761	10,013,862	(132,986)	(1,956)	20,413	16,985,990
Issuance of common shares	19,972,577	99,862	856,529	—	—	—	—	956,391
Purchase of treasury stock	(73,636,201)	—	—	—	—	(4,445,041)	—	(4,445,041)
Reissuance of treasury stock								
Sale to market	26,232,012	—	(28,245)	(482,990)	—	1,583,944	—	1,072,709
Stock-based compensation	—	—	20,277	—	—	—	—	20,277
Cash dividends declared ((Won)2,450 per share)	—	—	—	(824,065)	—	—	—	(824,065)
Other comprehensive income, net of tax								
a. Foreign currency translation	—	—	—	—	91,626	—	—	91,626
b. Unrealized holding losses on investment securities	—	—	—	—	431,269	—	—	431,269
Noncontrolling interest	—	—	—	—	—	—	(27,306)	(27,306)
Net income	—	—	—	1,325,964	—	—	6,974	1,332,938
Balance at December 31, 2008	<u>308,921,422</u>	<u>1,781,758</u>	<u>6,253,322</u>	<u>10,032,771</u>	<u>389,909</u>	<u>(2,863,053)</u>	<u>81</u>	<u>15,594,788</u>
Cumulative adjustment for accounting change	—	—	—	24,712	(24,712)	—	—	—
Adjusted balance at December 31, 2008	308,921,422	1,781,758	6,253,322	10,057,483	365,197	(2,863,053)	81	15,594,788
Issuance of common shares	30,000,000	150,000	953,883	—	—	—	—	1,103,883
Purchase of treasury stock	(43,412)	—	—	—	—	(2,294)	—	(2,294)
Reissuance of treasury stock								
Sale to market	4,150,979	—	8,133	—	—	249,829	—	257,962
Stock-based compensation	—	—	(14,785)	—	—	—	—	(14,785)
Other comprehensive income (loss), net of tax								
a. Foreign currency translation	—	—	—	—	(116,657)	—	(998)	(117,655)
b. Unrealized holding losses on investment securities	—	—	—	—	(3,889)	—	—	(3,889)
Noncontrolling interest	—	—	—	—	—	—	39,696	39,696
Net income	—	—	—	720,641	—	—	(2,072)	718,569
Balance at December 31, 2009	<u>343,028,989</u>	<u>1,931,758</u>	<u>7,200,553</u>	<u>10,778,124</u>	<u>244,651</u>	<u>(2,615,518)</u>	<u>36,707</u>	<u>17,576,275</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
TOTAL EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non- controlling Interest	Total equity
	Shares	Amount						
	(In millions of Korean won, except share data)							
Balance at January 1, 2010	343,028,989	1,931,758	7,200,553	10,778,124	244,651	(2,615,518)	36,707	17,576,275
Cumulative adjustment for accounting change	—	—	—	(14,195)	—	—	—	(14,195)
Adjusted balance at January 1, 2010	343,028,989	1,931,758	7,200,553	10,763,929	244,651	(2,615,518)	36,707	17,562,080
Stock-based compensation	—	—	9,623	—	—	—	—	9,623
Cash dividends declared ((Won)230 per share)	—	—	—	(78,897)	—	—	—	(78,897)
Other comprehensive income (loss), net of tax								
a. Foreign currency translation	—	—	—	—	(30,437)	—	(129)	(30,566)
b. Unrealized holding gains on investment securities	—	—	—	—	158,999	—	—	158,999
Changes in the Group's ownership interest in subsidiary	—	—	37	—	(50)	—	13	—
Noncontrolling interest	—	—	—	—	—	—	6,831	6,831
Net loss	—	—	—	(588,115)	—	—	(4,409)	(592,524)
Balance at December 31, 2010	<u>343,028,989</u>	<u>1,931,758</u>	<u>7,210,213</u>	<u>10,096,917</u>	<u>373,163</u>	<u>(2,615,518)</u>	<u>39,013</u>	<u>17,035,546</u>

Translation into U.S. dollars (Note 1) (In thousands, except share data)

Balance at January 1, 2010	343,028,989	1,708,614	6,368,789	9,533,101	216,390	(2,313,389)	32,467	15,545,972
Cumulative adjustment for accounting change	—	—	—	(12,555)	—	—	—	(12,555)
Adjusted balance at January 1, 2010	343,028,989	1,708,614	6,368,789	9,520,546	216,390	(2,313,389)	32,467	15,533,417
Stock-based compensation	—	—	8,511	—	—	—	—	8,511
Cash dividends declared (US\$0.20 per share)	—	—	—	(69,783)	—	—	—	(69,783)
Other comprehensive income (loss), net of tax								
a. Foreign currency translation	—	—	—	—	(26,920)	—	(115)	(27,035)
b. Unrealized holding gains on investment securities	—	—	—	—	140,633	—	—	140,633
Changes in the Group's ownership interest in subsidiary	—	—	33	—	(45)	—	12	—
Noncontrolling interest	—	—	—	—	—	—	6,042	6,042
Net loss	—	—	—	(520,180)	—	—	(3,900)	(524,080)
Balance at December 31, 2010	<u>343,028,989</u>	<u>1,708,614</u>	<u>6,377,333</u>	<u>8,930,583</u>	<u>330,058</u>	<u>(2,313,389)</u>	<u>34,506</u>	<u>15,067,705</u>

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands)
	(In millions of Korean won)			
Cash flows from operating activities:				
Net income (loss)	1,332,938	718,569	(592,524)	(524,080)
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses	2,313,454	2,203,993	3,568,040	3,155,882
Depreciation and amortization	407,187	431,007	359,568	318,033
Accretion of discounts on finance debentures	155,458	139,967	88,363	78,155
Net loss (gain) on valuation of trading securities	(74,578)	37,405	(18,281)	(16,169)
Net gain on valuation of derivatives	(652,909)	(707,639)	(373,863)	(330,677)
Net loss (gain) on transaction of derivatives	473,307	624,822	(384,411)	(340,006)
Net gain on sales of available-for-sale securities	(16,306)	(165,251)	(74,494)	(65,889)
Impairment losses on available-for-sale securities	224,925	6,667	1,516	1,340
Net gain on redemption of available-for-sale securities	(43,254)	(12,049)	(99,933)	(88,389)
Impairment losses on held-to-maturities securities	17,218	8,208	901	797
Net loss (gain) of equity method investments	8,673	(10,181)	102,244	90,433
Loss (gain) on sales of equity method investments	(343,660)	13,885	—	—
Loss on impairment of other securities	205,681	247	145,449	128,648
Net gain on other securities	(143,669)	(109,448)	(48,391)	(42,801)
Net loss (gain) on fair value hedge accounting	27,032	17,168	(161)	(142)
Net loss (gain) on sales of loans	3,293	(48,969)	(55,184)	(48,809)
Net gain on disposal of premises and equipment	(3,538)	(3,297)	(5,878)	(5,199)
Impairment loss on other assets	2,272	2,655	(119)	(105)
Non-cash stock compensation expense	(20,139)	23,039	4,800	4,245
Net change in:				
Trading assets	(6,279,966)	5,418,467	2,395,713	2,118,975
Accrued interest and dividend receivable	(223,467)	94,416	72,427	64,061
Deferred income tax assets	—	(12,390)	(311,035)	(275,107)
Income tax receivable	(42,805)	179,358	531,770	470,343
Other assets	(761,952)	768,519	(106,786)	(94,450)
Trading liabilities	6,506,002	(3,944,966)	(976,762)	(863,932)
Accrued interest payable	765,565	(1,142,141)	(115,612)	(102,256)
Deferred income tax liabilities	(40,504)	25,153	(6,516)	(5,764)
Other liabilities	(372,488)	(677,230)	234,822	207,697
Net cash provided by operating activities	<u>3,423,770</u>	<u>3,879,984</u>	<u>4,335,663</u>	<u>3,834,834</u>
Cash flows from investing activities:				
Net change in restricted cash	(797,452)	(1,256,294)	2,690,776	2,379,954
Net change in interest-bearing deposits in other banks	(126,922)	(230,643)	(456,894)	(404,117)
Net change in call loans and securities purchased under resale agreements	211,951	(625,426)	(814,240)	(720,184)
Proceeds from sales of available-for-sale securities	8,510,135	3,627,220	3,735,904	3,304,355

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands)
	(In millions of Korean won)			
Proceeds from maturities of available-for-sale securities	13,206,773	29,437,945	20,058,718	17,741,657
Purchases of available-for-sale securities	(22,295,970)	(36,743,215)	(23,389,168)	(20,687,395)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	1,735,488	1,158,695	3,162,326	2,797,034
Purchases of held-to-maturity securities	(3,322,132)	(1,181,732)	(3,629,492)	(3,210,235)
Net change in venture capital securities	9,949	5,172	3,548	3,139
Proceeds from sales of equity method investment	699,932	3,354	—	—
Purchases of equity method investment	(812,616)	(20,672)	(210,658)	(186,324)
Net change in other securities	(415,690)	(137,305)	(271,093)	(239,778)
Acquisition of subsidiaries, net of cash acquired	(267,543)	5,501	—	—
Net originations and repayments of loans	(28,957,933)	(1,229,354)	(3,364,052)	(2,975,457)
Proceeds from sales of loans	529,769	2,652,508	527,553	466,613
Proceeds from sales of premises and equipment	13,956	17,584	12,821	11,339
Payments for purchases of premises and equipment	(454,877)	(187,103)	(119,816)	(105,975)
Net change in security deposits	(91,356)	(60,433)	(68,385)	(60,486)
Net cash used in investing activities	<u>(32,624,538)</u>	<u>(4,764,198)</u>	<u>(2,132,152)</u>	<u>(1,885,860)</u>
Cash flows from financing activities:				
Net decrease in non-interest bearing deposits	(239,913)	(334,414)	(21,886)	(19,358)
Net increase in interest-bearing deposits	20,494,149	10,802,342	10,771,578	9,527,311
Net increase (decrease) in call money	2,581,415	(2,084,586)	(753,159)	(666,158)
Net decrease in secured borrowings	(435,263)	(1,209,926)	(1,948,761)	(1,723,652)
Net increase (decrease) in other borrowed funds	2,533,164	(2,347,833)	(157,796)	(139,568)
Proceeds from issuance of long-term debt	15,981,200	8,748,413	8,992,899	7,954,094
Repayment of long-term debt	(7,255,854)	(14,393,996)	(17,812,574)	(15,754,975)
Cash dividends paid to noncontrolling interests by subsidiaries	(1,535)	—	—	—
Payment for stock option exercise	(894)	(1,363)	(4,225)	(3,737)
Proceeds from issuance of common stock	—	1,103,883	—	—
Proceeds from reissuance of treasury stock	1,595	257,962	—	—
Purchases of treasury stock	(3,411,293)	(2,294)	—	—
Cash dividends paid on common stocks	(824,065)	—	(78,897)	(69,783)
Increase in noncontrolling interests	1,013	31,158	1,271	1,124
Net cash provided by (used in) financing activities	<u>29,423,719</u>	<u>569,346</u>	<u>(1,011,550)</u>	<u>(894,702)</u>
Effect of exchange rate changes on cash	79,996	(62,973)	(20,214)	(17,879)
Net increase (decrease) in cash and cash equivalents	302,947	(377,841)	1,171,747	1,036,393
Cash and cash equivalents, beginning of year	2,770,463	3,073,410	2,695,569	2,384,194
Cash and cash equivalents, end of year	<u>3,073,410</u>	<u>2,695,569</u>	<u>3,867,316</u>	<u>3,420,587</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Translation into U.S. dollars (Note 1) (In thousands)
	(In millions of Korean won)			
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	8,593,635	9,373,680	7,086,557	6,267,961
Cash paid (received) during the year for income tax, net	1,114,677	(130,031)	36,863	32,605
Supplemental schedule of noncash investing and financing activities:				
Bonds and securities received in connection with loan restructuring	40	9,037	52,486	46,423
Increase (decrease) in cumulative translation adjustments, net of tax	91,626	(117,655)	(30,566)	(27,035)
Increase (decrease) in unrealized gains on investment securities, net of tax	431,269	(3,889)	158,999	140,633
Issuance of common stock-reorganization:				
Acquisition of treasury stock	856,555	—	—	—
Acquisition of noncontrolling interests	33,459	—	—	—
Goodwill-noncontrolling interests	68,935	—	—	—

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information and Summary of Significant Accounting Policies

KB Financial Group Inc. is a financial holding company whose businesses provide a broad range of financial services to consumer and corporate customers primarily in the Republic of Korea. KB Financial Group Inc. was incorporated on September 29, 2008 under the Financial Holding Company Act in Korea.

KB Financial Group Inc. and its subsidiaries (collectively referred to as the “Company”) derive substantially all of their revenue and income from providing a broad range of banking and related financial services to consumers and corporations primarily in Korea and in selected international markets. The Company’s principal business includes ownership and management of subsidiaries and affiliate companies that are engaged in financial services or activities.

As of December 31, 2010, the Company’s paid-in capital amounted to (Won)1,931,758 million. Out of 386,351,693 shares issued at December 31, 2010, 40,353,823 shares (10.44% of total shares issued) were listed on the New York Stock Exchange as American Depository Shares (“ADS”).

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term primarily relate to the allowance for credit losses on loans and off-balance sheet credit instruments, fair value and impairment of investment securities, derivative financial instruments, deferred tax assets and related valuation allowances, financial instruments with no available market prices, goodwill, other intangibles and share based compensation.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of KB Financial Group Inc. and its subsidiaries which are generally controlled through a majority voting interest. The Company also includes in its consolidated financial statements the accounts of the variable interest entities (“VIEs”) where the Corporation is primary beneficiary. A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments.

The Company accounts for investments in companies in which it owns a voting or economic interest of 20 to 50 percent and is not the primary beneficiary but has the ability to exercise significant influence over operating and financing decisions using the equity method of accounting. These investments are reported in “Other securities” under “Investments” and the Company’s proportionate share of income or loss of the equity method investees and gains and losses realized on disposition of investments are reported in “Net gain (loss) on investments.”

The Company evaluates variable interests in VIEs. Variable interests are those in which the value of the interest changes with the fair value of the net assets of the entity exclusive of variable interests. When the Company first becomes involved with the VIE, the Company evaluates the existence of a primary beneficiary. If the results of the evaluation indicate that the Company is the primary beneficiary, the Company consolidates that entity. The Company performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and therefore subject to the VIE

consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation decision to be reversed. The Company has variable interest in VIEs which are not consolidated because the Company is not the primary beneficiary. These include Special Purpose Entities ("SPEs") where the Company provides administration services and liquidity (See Note 9).

Assets held in agency, fiduciary or trust management capacities are not included in the consolidated financial statements.

The consolidated financial statements are presented in accordance with U.S. GAAP. All material inter-company transactions and balances have been eliminated in consolidation.

In December 2007, the FASB issued ASC 810-10-45-15 Noncontrolling Interest in Consolidated Financial Statements, which establishes standards for the accounting and reporting of noncontrolling interest in subsidiaries in consolidated financial statements and for the loss of control of subsidiaries. Upon adoption, ASC 810-10-45-15 requires that the equity interest of noncontrolling stockholders, partners, or other equity holders in subsidiaries be presented as a separate item in the Company's total equity, rather than mezzanine item between the liabilities and total equity. As such, no gain or loss related to these type changes can be reflected in income. Furthermore, no change in the carrying amount of subsidiary assets or liabilities can be recognized. After initial adoption, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary must be measured at fair value at the date of the deconsolidation. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of the remaining investment, rather than the previous carrying amount of that retained investment. The presentation and disclosure requirements shall be applied retrospectively for all periods presented and therefore the 2008 financial statements was adjusted to retrospectively apply the adoption of ASC 810-10-45-15. The adoption of ASC 810-10-45-15 resulted in a reclassification of minority interests to a separate component of total equity on the balance sheet and income attributable to noncontrolling interests is shown as a reduction from net income in calculating net income available to common stockholders on the statement of operations. All previous references to "minority interests" in the consolidated financial statements have been revised to "noncontrolling interests".

Business combination

The Company accounts for business combinations using the purchase method. Identifiable intangible assets acquired in a business combination are separately valued and recognized on the balance sheet if they meet certain requirements. The excess of the cost of the acquired entity over the net amounts assigned to assets acquired and liabilities assumed is recognized as an asset referred to as "Goodwill". Results of operations of the acquired business are included in the consolidated statements of income from the date of acquisition.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rate prevailing on the balance sheet date, with resulting gains or losses included in the consolidated statements of income. Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction and the relating gains or losses from the settlement of foreign currency transactions are recognized in the consolidated statements of income.

Assets, liabilities and operations of foreign branches and subsidiaries are recorded based on the functional currency of each entity. For certain foreign operations, the functional currency is the local currency, in which case the assets, liabilities and operations are translated, for consolidation purposes, at current exchange rates from the local currency to the reporting currency, the Korean won. Assets and liabilities of foreign branches and subsidiaries are recorded and reported in the accompanying consolidated balance sheets using the period-end exchange rates. Income and expense of foreign branches and subsidiaries are recorded and reported in the consolidated statement of income using the average rates for the relevant periods. The resulting unrealized gains

or losses are reported as a component of accumulated other comprehensive income (loss), net of tax. Gains and losses arising from the translation of available-for-sale securities denominated in foreign currencies are also recorded as a component of accumulated other comprehensive income (loss), net of tax.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, cash items in the process of collection, highly liquid securities and interest-earning deposits with original maturities at the time of purchase of 90 days or less, other than those used for trading purposes.

Securities purchased under agreement to resell and securities sold under agreement to repurchase

The Company enters into short-term purchases of securities under agreements to resell (“Resale agreements”) and sales of securities under agreements to repurchase (“Repurchase agreements”) substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when control over the related securities has not been surrendered by the transferor and are recorded at the amount at which the securities were acquired or sold. It is the Company’s policy to take possession of securities under agreements to resell. The Company minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and collateral value, and requiring the counterparty to deposit additional collateral with the Company when deemed necessary. The Company accepts collateral that it is permitted by contract or custom to sell or repledge. At December 31, 2009 and 2010, the fair values of these collaterals were (Won) 1,590,188 million and (Won)1,962,945 million respectively and none of the collaterals was sold or repledged for the years. The Company also pledges securities as collateral in transactions that include repurchase agreements. This collateral can be sold or repledged by the counterparties to the transactions.

Trading assets and liabilities, including derivatives

Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading liabilities include securities that are sold short, not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis. The Company recognizes changes in the fair value of trading positions as they occur in “Net trading revenue”.

Trading assets and liabilities also include derivatives used for trading purposes and for non-trading purposes that do not qualify for hedge accounting treatment and foreign exchange contracts that are recognized on the consolidated financial statements at fair value. Trading and non-trading derivatives include interest rate and foreign currency swaps, credit indexed contracts, equity conversion options, puts and calls, caps and floors, warrants, and futures and forwards. The Company recognizes changes in the fair value of trading and non-trading derivatives that do not qualify for hedge accounting treatment and foreign exchange contracts as they occur in “Net trading revenue”.

The fair value of trading securities, derivative financial instruments and foreign exchange contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Derivatives used for hedging purposes

The Company uses various derivative instruments as part of its asset and liability management process, including interest rate and foreign currency swaps, to manage various interest rate and foreign exchange exposure or modify interest rate characteristics of various balance sheet accounts. Certain derivative contracts are entered into for non-trading purposes and are intended to serve as economic hedges of risk but do not qualify for hedge accounting.

Derivatives accounted for as hedges must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be formally designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively at inception and on a regular basis using quantitative measures of correlation. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and reflects changes in fair value in earnings after termination of the hedge relationship.

All derivatives, whether designated for hedging relationships or not, are recorded on the consolidated balance sheets at fair value. If the derivative is designated as a fair value hedge of fixed rate assets or liabilities, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in other non-interest income (expense). Hedge ineffectiveness is reflected in the current earnings as well. Fair value hedges are used to limit the Company's exposure to total changes in the fair value of its interest-bearing liabilities that are due to interest rate or foreign exchange volatility. Fair value hedges of the Company mainly include hedges of fixed rate debentures.

If the derivative is designated as a cash flow hedge of floating rate assets, liabilities or forecasted transactions, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the consolidated income statements when the hedged item affects earnings. The ineffective portion of cash flow hedges is immediately recognized in current earnings. Cash flow hedges are used to minimize the variability in cash flows of interest-earning assets or interest-bearing liabilities or forecasted transactions caused by interest rate or foreign exchange fluctuations.

If hedge relationships are terminated, hedge designations are removed, or if forecasted transactions are no longer expected to occur, hedge accounting treatment is not applied prospectively and the related hedging derivatives would be transferred to trading assets and liabilities. In such cases, the changes in the fair value or cash flows of the hedged item that are attributable to the risk being hedged will not be offset and the fair value changes in the hedging derivatives are recognized immediately in current earnings.

The Company's designated fair value hedges consisted primarily of interest rate swaps and cross currency rate swaps designated as fair value hedges. When applying fair value hedge accounting the Company uses standard statistical methods of regression to determine if the results of the changes in value of the hedging derivative and the hedged item meet the criteria for a highly effective hedge accounting relationship.

Investments in equity securities and debt securities

Equity securities with readily determinable fair values are recorded on a trade-date basis and are accounted for at fair value. Dividend income on these securities is recorded in "Interest and dividend income". Securities purchased with the intention of recognizing short-term profits are included in "Trading assets" at fair value. Marketable equity securities not classified as trading are designated as available-for-sale securities and are carried at fair value with unrealized gains and losses, net of income tax, reflected in accumulated other comprehensive income (loss). Realized gains and losses on the sales of equity securities and other –than – temporary impairment of equity securities are determined using the moving average method.

Debt securities are recorded on a trade-date basis. Debt securities for which the Company has the positive ability and intent to hold until maturity are classified as held-to-maturity securities and recorded at amortized cost and adjusted for accretion or amortization of discounts and premiums. Debt securities that the Company purchases for short-term appreciation or other trading purposes are carried at fair value and classified as short-term investments which are included in "Trading assets." Debt securities not classified as held-to-maturity or trading are designated as available-for-sale and carried at fair value with unrealized gains and losses, net of income tax, reflected in accumulated other comprehensive income (loss). Interest earned on debt securities,

including amortization of premiums and accretion of discounts based on the effective interest rate method, is included in “Interest and dividend income” and realized gains and losses from the sale of debt securities, which are included in “Net gain (loss) on investments,” are determined on a specific security basis.

Management regularly evaluates whether declines in fair value of individual available-for-sale securities and held-to-maturity securities below their amortized cost are other-than-temporary. Factors considered in determining whether such declines in value are other-than-temporary include the length of time and extent to which fair value is less than cost, the status, financial condition and near-term prospects of the issuer and the status of the security as well as whether the Company either plans to sell the security or it is more-likely-than-not that it will be required to sell prior to recovery of the amortized cost basis. Management continually monitors and evaluates these securities for impairment that is other-than-temporary.

The Company’s Consolidated Statement of Income reflects the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale (AFS) and held-to-maturity (HTM) debt securities that management has no intent to sell and believes that it more likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in Accumulated Other Comprehensive Income (AOCI). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Company’s cash flow projections using its base assumptions. The disclosures related to the Company’s investment and OTTI are detailed in Note 8.

Venture capital securities

KB Investment Co., Ltd., one of the Company’s subsidiaries, engages exclusively in venture capital activities. Venture capital investments are not within the scope of the accounting guidance for certain Investments in debt and equity securities” and are subject to specialized industry accounting principles for investment companies. Venture capital investments are recorded as “Venture capital securities” under “Investments” and are carried at fair value with net changes in fair value recognized in “Net gain on investments.” The fair values of publicly-traded securities held by this subsidiary are generally based on quoted market prices. Securities that are held by this subsidiary that are not publicly traded are initially recorded at cost, which is deemed to approximate the fair value as of the acquisition date. Subsequent to that date, management estimates the fair value based on investee transactions with unaffiliated parties, management’s review of the investee’s financial results and condition and the latest obtainable net asset value of the investees.

Non-marketable or restricted equity securities

Certain equity securities that do not have readily determinable fair values or have sales restrictions exceeding one year are recorded using the cost method. The cost method is used for those investments in which the Company does not have significant influence over the investees, and under this method, there is no change to the cost basis unless there is other-than-temporary decline in value. If the decline is determined to be other-than-temporary, the Company writes down the cost basis of the investment to a new cost basis that represents realizable value. Non-marketable or restricted equity securities are recorded as “Other securities” under “Investments” and the amount of write-down is included in earnings under “Net loss on investments” and dividend income earned on these securities is recorded in “Interest and dividend income”.

Loans

Loans are carried at their outstanding principal balances, net of allowance for loan losses and unamortized deferred nonrefundable loan origination fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the yield. Interest income on loans that are not placed on non-accrual status is accrued at the effective rate and credited to income as it is earned.

Loans are generally placed on non-accrual status when principal or interest payments become contractually one day past due or are classified as impaired loans, except where the loans are fully collateralized by customer deposits or guaranteed by sovereign or certain selected financial institutions. When a loan is placed on non-accrual status, interest accrued previously but unpaid is generally reversed against current year interest income. Cash receipts on non-accrual loans, for which the ultimate collectability of principal is uncertain, are applied as principal reductions; otherwise, payments are applied first to the delinquent interest, normal interest, and then to the loan balance until paid in full. A non-accrual loan is normally restored to accrual status when all the principal and interest amounts contractually due are brought current and it is believed that the financial condition of the borrower has improved to the extent that the collection of future principal and interest on a timely basis is reasonably assured. This non-accrual loan is consistently applied to all classes of loans.

Securities received by the Company under a debt restructuring or settlement are recorded at the fair value of the security at the date of restructuring or settlement. Any difference between the fair value of the security and the net carrying amount of the loan is recorded as a direct charge-off or recovery on the loan, as appropriate, through the allowance for loan losses.

Loans held for sale

Loans held for sale are loans that the Company no longer intends to hold for investment purpose. The Company's loans held for sale include residential mortgage loans and are carried at the lower of aggregate cost or market value. Loans held for sale are included in "Other assets" and gains and losses on the sales of loans are determined using the specific-identification method and included in "Other non-interest income (expenses)".

Allowance for loan losses

The allowance for loan losses is based on management's continuing review and evaluation of the loan portfolio and is management's best estimate of probable losses incurred as of the balance sheet date. The determination of the adequacy of the allowance for loan losses hinges on various judgments and assumptions, including but not necessarily limited to, management's assessment of potential losses on individual loans, domestic and international economic conditions, loan portfolio composition, transfer risks and prior loan loss experience. The allowance for loan losses is charged against income as provision for loan losses. The aggregate allowance for loan losses is increased by amounts charged to the provision for loan losses, net of charge-offs, and recoveries as a result of cash collections from charged-off accounts.

The Company's allowance for loan losses consists of (a) specific allowances for specifically identified impaired borrowers, and (b) general allowances for homogeneous pools of commercial and consumer loans, and other loans which are not specifically identified as impaired.

A commercial loan is considered as impaired when, after consideration of current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Generally, the Company considers the following types of loans to be impaired:

- Loans classified as "substandard" or below according to the Financial Services Commission's asset classification guidelines;
- Loans that are 30 days or more past due;
- Loans to companies that have received a warning from the Korean Federation of Banks, indicating that the Company has exhibited difficulties in making timely payments of principal and interest;
- Loans which are "troubled debt restructurings".

Consumer loans and credit card loans which are classified as TDRs are included in impaired loans.

Once a loan has been identified as individually impaired, the Company's measurement of an impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, is based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in impaired loans exceeds the present value of payments expected to be received, a specific allowance is established as a component of allowance for loan losses. Management consults closely with individual loan officers and reviews the cash flow assumptions used to estimate the expected future cash flows. The Company considers the reliability and timing of appraisals such as the time to value the collateral and current market conditions to determine the reasonableness of fair value estimates, for the case where the measurement of an impairment of a loan is based on the fair value of collateral for collateral dependent loans.

The general allowance for non-impaired commercial loans, consumer loans and credit card loans is determined using several modeling tools, including a delinquency roll-rate model for credit cards by products, as well as a risk rating migration model for homogeneous pools of commercial and consumer loans. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of balance and established loss rates. The actual historical loss rates derived from this model are used to project the estimated percentage of losses within each aging category based on performance over an established period of time. A migration model is a statistical tool used to monitor the progression of loans and the corresponding historical loss rates. The loss rates derived from this model are used to project the expected percentage of losses within each loan grade category based on past performance over varying periods of time. The loss factors developed through the use of such models are based on various analyses, including the Company's historical delinquency and loan loss experience, and adjusted for qualitative factors, such as the current economic conditions in which the Company operates as well as current lending policies and procedures.

Loans are charged off if they are deemed to be uncollectible. Consumer and credit card loans are charged off when those loans are past due more than 180 days.

Allowance for off-balance sheet credit instruments

The Company maintains an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unfunded credit facilities. The allowance is estimated based on the assessment of the probability of commitment usage and credit risk factors for loans outstanding to these same customers. The allowance for credit losses for off-balance sheet credit instruments is included in "Other liabilities" in the consolidated balance sheets.

Secured borrowings

Transfers of loans and securities related to certain securitizations, in which control over the loans and securities has not been surrendered, are accounted for as collateralized borrowings. The liability for funds received under the related loans and securities sale agreements is included in "Secured borrowings". Also, the amounts borrowed based on collateral and the amounts borrowed under repurchase agreements in which control over the related securities has not been surrendered by the transferor are included in "Secured borrowings".

Loans and securities provided as collateral

The Company pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitization, which are retained on the consolidated balance sheets, as the Company retains control of the assets transferred. The Company also pledges securities as collateral for transactions on repurchase agreements, derivatives contracts, borrowings from the Korean Federation of Banks and other borrowings structured as a transfer of securities through asset securitizations. The Company retains control of the securities and retains them on the consolidated balance sheets.

Premises and equipment

Premises, equipment and furniture, leasehold improvements and leased property under capital leases are stated at cost less accumulated depreciation. Depreciation of buildings is computed on a straight-line basis over the estimated useful lives of the assets. Depreciation of equipment and furniture and lease property under capital leases is computed on a declining balance basis over the useful lives of the assets, or the term of the lease, if shorter, in the case of leasehold improvements. Gains or losses on disposals of premises and equipment are determined by reference to their carrying amount and are reported in "Other non-interest income (expenses)." Maintenance and repairs are charged to expense as incurred. The estimated useful lives of premises and equipment are as follows:

Buildings	40 years
Equipment and furniture	3-6 years
Leasehold improvements	1-5 years
Leased property under capital leases	4 years

Goodwill and other intangible assets

Goodwill is calculated as the purchase premium after adjusting for the fair value of net assets acquired. Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or when events or circumstances indicate a potential impairment, at the reporting unit level in accordance with accounting guidance that requires that goodwill and other intangible assets be tested for impairment at the reporting unit level at least annually or more frequently, if events or circumstances indicate a potential impairment.

The goodwill impairment test is performed in two phases. The first step of the impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, goodwill of the reporting unit is considered impaired, and an additional procedure must be performed. The second step of the impairment test quantifies the amount of the impairment loss by comparing the carrying amount of goodwill to its implied fair value. An impairment loss is recorded to the extent the carrying amount of goodwill exceeds its implied fair value.

The Company has finite-lived intangible assets including core deposit intangibles, credit card relationship intangibles and capitalized software. Core deposit intangibles reflect the estimated fair value of the acquired demand deposits and savings deposits, which the Company can expect to maintain for an extended period of time because of generally stable customer relationships. Credit card relationship intangibles reflect the estimated fair value of the credit card relationships acquired from which the Company expects to derive future benefits over the estimated lives of such relationships. Both the core deposit intangibles and the credit card relationship intangibles are amortized on an accelerated basis over their useful lives in proportion to the estimated run-off of depositors and credit card customers, respectively. The estimated useful lives of the core deposit intangibles and the credit card relationship intangibles range from six to ten years. Capitalized software is amortized over its estimated useful life ranging from four to five years. The Company had no indefinite-lived intangible assets as of December 31, 2009 and 2010.

Impairment of long-lived assets and other intangible assets

The Company reviews its long-lived assets, including identifiable intangibles with definite lives in accordance with accounting guidance for impairment of long-lived assets whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Such circumstances include significant or sustained declines in revenues or earnings and material adverse changes in the economic climate. The carrying amount of an intangible asset is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to derive from the use of such asset. For assets which the Company intends to hold for use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the

assets, a loss is recognized for the difference between the fair value and carrying value of the assets. For assets which the Company intends to sell, a loss is recognized for the amount that the estimated fair value, less cost to sell, is less than the carrying value of the assets.

Fair value measurement

The Company measures the fair values of its financial instruments in accordance with accounting guidance which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company adopted the accounting guidance related to nonfinancial assets and nonfinancial liabilities that are not measured at fair value on a recurring basis on January 1, 2009. In addition, the Company categorizes assets and liabilities measured at fair value into three-level hierarchy based on the inputs to fair value measurement. The following describes the three-level hierarchy.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities either directly or indirectly; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The fair value of financial instruments and the methods and assumptions used in estimating fair value amounts are detailed in Note 29.

Stock-based compensation

The Company has various stock-based employee compensation plans, which are described in detail in Note 28. The written terms of the Company's share-based payments allows the Company, at its option, to settle the awards in cash, however, it is the Company's past practice and its intention to continue settling the awards in cash. Accordingly, at grant date, the Company initially measures compensation expense and liabilities for stock options and other share-based payments based on the instruments' grant date fair value. Subsequently, the liabilities incurred under share-based payment arrangements are remeasured at the end of each reporting period until settlement.

Trust fees and compensation to the trust accounts

The Company manages funds on behalf of its customers through the operation of various trust accounts. The Company earns fees for managing those funds, which are recognized when earned. In certain cases, the Company guarantees (a) principal and a fixed return on principal or (b) principal only to the investors in those trust accounts. At each balance sheet date, the Company accrues the liability that exists on account of such guarantees where the Company does not consolidate the trust accounts.

Other fees and commission income

Other fees and commissions primarily consist of credit card fees, fees on guarantees and import/export letters of credit, and commissions received on remittance, lottery sales, cash dispenser service, cash management services and others. Such fees are recognized when earned.

Income tax

The Company accounts for income taxes in accordance with the accounting guidance for income taxes, that prescribes two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period and deferred income tax expense is provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, including operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Deferred tax assets, including the tax effect of carryforward tax losses, are recognized to the extent it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

The Company uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit which is greater than 50% likely to be realized. The difference between the benefit recognized and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Additionally, the Company elected to classify interest and penalties related to tax positions as a component of income tax expense. See Note 25 to the consolidated financial statements for further details of the Company's provision and related income tax assets and liabilities.

Earnings per share

Basic earnings per share are computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding in each period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding during each period and dilutive common equivalent shares representing the weighted average dilutive effect of the Company's stock options outstanding during each period. Dilutive potential common shares are calculated using the "treasury stock" method.

Comprehensive income

The Company records unrealized gains and losses on investment securities and foreign currency translation adjustments in "Accumulated other comprehensive income (loss), net of tax." Gains and losses on investment securities are reclassified to net income or loss as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income or loss at the time of the charge. Translation gains or losses on foreign currencies translation adjustments are reclassified to net income or loss upon the sale or liquidation of investment in foreign operations.

United States dollar amounts

The Company operates primarily in Korea and its official accounting records are maintained in Korean won. The U.S. dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean won amounts are expressed in U.S. dollars at the rate of (Won)1130.60 to U.S.\$1.00, the U.S. Federal Reserve Bank of New York buying exchange rate in effect at noon, December 31, 2010. Such convenience translation into US dollars should not be construed as representations that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

2. Recently Issued Accounting Standards

Elimination of Qualifying Special Purpose Entities(QSPEs) and Changes in the Consolidation Model for Variable Interest Entities (VIEs)

In June 2009, the FASB issued SFAS No.166, “Accounting for Transfers of Financial Assets, an amendment to FASB Statement No.140”. This statement removed (1) the concept of a QSPE from ASC 860–Transfers and Servicing and (2) the exceptions from applying ASC 810–Consolidation to QSPEs. This statement amends ASC 860 to revise and clarify the derecognition requirements for transfers of financial assets and the initial measurement of beneficial interests that are received as proceeds by a transferor in connection with transfers of financial assets. This statement also requires additional disclosure about transfers of financial assets and a transferor’s continuing involvement with such transferred financial assets. The Company adopted this statement on January 1, 2010 on a prospective basis and the impact of the adoption was not material to its financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No.167, “Amendments to FASB Interpretation No. 46 (R).” This statement amends ASC 810 to require ongoing assessments to determine whether an entity is VIE and whether an enterprise is the primary beneficiary of a VIE. This statement also amends the guidance for determining which enterprise, if any, is the primary beneficiary of a VIE by requiring the enterprise to initially perform a qualitative analysis to determine if the enterprise’s variable interest or interests give it a controlling financial interest. Consolidation is based on a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. If a company has control and the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE, then consolidation is required. This statement also requires additional disclosure about transfers of financial assets and a transferor’s continuing involvement with such transferred financial assets. The Company adopted these changes on January 1, 2010 and the impact of adoption resulted in a decrease in shareholder’s equity of (Won)14,195 million, net-of-tax, as of January 1, 2010. In addition, as a result of the adoption, total assets and total liabilities decreased by (Won) 84,282 million and (Won)70,087 million, respectively, as of January 1, 2010.

In February 2010, the FASB issued Accounting Standard Update No. 2010-10, Consolidation (Topic 810), Amendments for Certain Investment Funds (ASU 2010-10). ASU 2010-10 provides a deferral of the requirement of ASC 810 for certain investment entities that have the attributes of entities subject to ASC 946 (the “investment company guide”) and registered money market funds as well as all other unregistered funds that operate in a similar manner as registered money market funds. The Company has determined that a majority of the investment vehicles managed by the Company are provided a deferral from the requirements of SFAS 167 because they meet the criteria for a deferral provided in ASU 2010-10. These vehicles continue to be evaluated under the requirements of ASC 810-10, prior to the implementation of the new guidance in ASC 810.

Additional Disclosures about Fair Value Measurements.

In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures about Fair Value Measurements”. The ASU 2010-06 amends ASC 820 and requires disclosing the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and to describe the reasons for the transfers. These changes also clarify existing disclosure requirements on the level of disaggregation and disclosures regarding inputs and valuation techniques. The disclosures are effective for reporting periods beginning after December 15, 2009. The Company adopted this statement as of January 1, 2010. The required disclosures are included in Note 29. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 fair value measurements will be required for fiscal years beginning after December 15, 2010.

Scope Exception Related to Embedded Credit Derivatives

In March 2010, the FASB issued ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives. The ASU 2010-11 amends ASC 815 and clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to

potential bifurcation and separated fair value accounting. The ASU 2010-11 allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. The Company adopted these changes on July 1, 2010. The adoption of this statement had no impact on the Company's consolidated financial condition, results of operations and cash flows.

Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset

In April 2010, the FASB issued ASU 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset*. As a result of the amendments modifications of loans that are accounted for within a pool under Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity is required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. These changes became effective for modifications of loans occurring in reporting periods ending on or after July 15, 2010 and had no impact on the Company's consolidated financial condition, results of operations and cash flows.

Enhancing Disclosures about the Credit Quality of Financing Receivables

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables", The ASU 2010-20 amends ASC 310 and enhances disclosures about the credit quality of financing receivables and the allowance for credit losses. These changes define a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are commercial, consumer and credit cards loans. The classes in the commercial portfolio segments are commercial & industrial, construction, other commercial and foreign. The classes in the consumer portfolio segments are mortgage, home equity, other consumer and foreign. The credit card portfolio segment consists of only a credit card class. Under this new accounting guidance, the allowance is presented by portfolio segment. The disclosures are effective for reporting periods ending on or after December, 15, 2010 and are included in Note 10. Additionally, the disclosures about activity that occurs during a reporting period are effective for reporting periods beginning on or after December 15, 2010. According to this statement, the Company must also provide supplemental information on the nature and extent of TDRs. Under ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings* in Update No. 2010-20, these TDR disclosures have been deferred to coincide with a separate FASB TDR project, with an effective date in second quarter 2011.

3. Business Development

Reorganization (Establishment of KB Financial Group Inc.)

The stockholders of Kookmin Bank approved a reorganization that involved the formation of KB Financial Group Inc., a holding company, and a stock transfer at its extraordinary stockholders meeting on August 25, 2008 and received the final approval from the Financial Services Commission on September 26, 2008. In accordance with the approval, KB Financial Group Inc. was established on September 29, 2008 and the stockholders of Kookmin Bank received one common share of KB Financial Group Inc. for one common share of Kookmin Bank. As a result, Kookmin Bank became a wholly-owned subsidiary of KB Financial Group Inc., and, in addition, the shares of KB Financial Group Inc. replaced the shares of Kookmin Bank on the Korea Stock Exchange on October 10, 2008. The foregoing reorganization was accounted for as a transaction between entities under common control.

In addition, as part of the reorganization, KB Financial Group Inc. acquired equity shares of subsidiaries of Kookmin bank. The acquisition was accounted for using the purchase method in accordance with ASC 805.

Furthermore, Kookmin Bank acquired 73,607,601 shares of KB Financial Group Inc. and had 47,407,671 shares as of December 31, 2008, after disposing of 26,199,930 shares prior to December 31, 2008. The Company sold additional 4,084,967 shares in 2009 and did not sell any shares in 2010. Consequently, the Company has 43,322,704 shares as of December 31, 2010. The Company classified these shares as treasury stock in the consolidated financial statements as of December 31, 2010 and plans to dispose of them within three years from the acquisition date pursuant to the Korean Commercial Law.

Acquisition of KB Investment & Securities Co., Ltd

On March 11, 2008, Kookmin Bank acquired 9,580,000 common shares of KB Investment & Securities Co., Ltd., formerly Hannuri Investment & Securities Co., Ltd., from J.D.K. Investment Co., Inc. for (Won)267,554 million. Kookmin Bank acquired 95.8% of the voting rights of KB Investment & Securities Co., Ltd. and participated in the subsequent capital issuance of KB Investment & Securities Co., Ltd. KB Investment & Securities Co., Ltd. became a wholly-owned subsidiary of the Company as the Kookmin Bank exchanged its shares of KB Investment & Securities Co., Ltd. with the shares of the Company.

Acquisition of shares of Joint Stock Company Bank CenterCredit (“JSC Bank CenterCredit”), a Kazakhstan bank.

In August 2008, Kookmin Bank acquired 29,972,840 common shares of JSC Bank CenterCredit, a Kazakhstan bank, and 14,163,836 additional common shares of JSC Bank CenterCredit in November and December 2008. In addition, Kookmin Bank acquired 11,990,069 convertible preferred shares of JSC Bank CenterCredit through the participation of capital injection in January 2010. In February 2010, Kookmin Bank acquired an additional 24,571,396 convertible preferred shares and 3,886,574 outstanding common shares. As a result, Kookmin Bank holds 41.93% of common and convertible preferred shares in JSC Bank CenterCredit as of December 31, 2010.

Acquisition of Khmer Union Bank (renamed as Kookmin Bank Cambodia PLC)

Kookmin Bank acquired 132,600 common shares of Khmer Union Bank for (Won)9,969 million on May 4, 2009 and additional 37,602 common shares Khmer Union Bank for (Won)2,141 million on December 29, 2010. As a result, Kookmin Bank owns 53.19% of the voting rights of Khmer Union Bank in Cambodia as of December 31, 2010.

Share transfer of KB life Insurance Co., Ltd.

On June 22, 2009, KB life Insurance Co, Ltd. whose shares of 51.0% were held by Kookmin Bank was transferred to KB financial Group Inc. This share transfer was accounted for as a transaction between entities under common control.

Acquisition of Powernet Technologies Co., Ltd.

On February 12, 2010, the Company acquired 92.64% of the voting rights of Powernet Technologies Co., Ltd., for (Won)76,392 million((Won)2,122 per share).

The purchase price of (Won)76,392 million was allocated to the acquired assets and liabilities based on their estimated fair values at the Powernet Technologies Co., Ltd. acquisition date. Goodwill of (Won)6,454 million was calculated as the purchase premium after adjusting for the fair value of net assets acquired.

4. Restricted Cash

The following table presents restricted cash as of December 31:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Reserve deposits with the Bank of Korea	5,734,677	2,822,548
Other	315,564	536,917
Total restricted cash	<u>6,050,241</u>	<u>3,359,465</u>

Reserve deposits with the Bank of Korea (“BOK”) represent amounts required under the Republic of Korea’s General Banking Act for payment of deposits.

5. Call Loans and Securities Purchased under Resale Agreements

Call loans and securities purchased under agreements to resell, at their respective carrying values, consisted of the following as of December 31:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Call loans ⁽¹⁾	446,142	919,529
Securities purchased under resale or similar arrangements ⁽²⁾	1,590,000	1,930,000
Total	<u>2,036,142</u>	<u>2,849,529</u>

⁽¹⁾ Call loans are short-term lending among banks and financial institutions, with maturities of 90 days or less for call loans in won currency and 30 days or less for call loans in foreign currencies. Typically, call loans have maturities of one day.

⁽²⁾ The Company enters into short-term purchases of securities under agreements to resell substantially identical securities and classified these agreements as secured lending transactions.

6. Trading Assets and Liabilities

The trading assets and liabilities, at fair value, consisted of the following as of December 31, 2009 and 2010:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Trading assets:		
Debt securities:		
Korean treasury and government agencies	1,358,812	910,651
Financial institutions	2,699,415	2,285,452
Corporate	31,216	151,091
Asset-backed securities	116,450	171,712
Equity securities	<u>254,349</u>	<u>176,213</u>
Total debt and equity securities	<u>4,460,242</u>	<u>3,695,119</u>
Foreign exchange spot contracts	2,878	1,415
Derivative instruments:		
Foreign exchange derivatives	2,592,510	1,747,629
Interest rate derivatives	573,309	596,004
Equity derivatives	86,267	38,949
Credit derivatives	2,118	1,954
Commodity derivatives	2,410	—
Other	1,821	3,743
Total derivative instruments and foreign exchange spot contracts	<u>3,261,313</u>	<u>2,389,694</u>
Total trading assets	<u><u>7,721,555</u></u>	<u><u>6,084,813</u></u>
Trading liabilities:		
Foreign exchange spot contracts	2,812	1,839
Derivative instruments:		
Foreign exchange derivatives	1,751,492	1,110,304
Interest rate derivatives	814,637	732,425
Equity derivatives	321,803	141,501
Credit derivatives	—	—
Commodity derivatives	2,386	—
Other	5,306	3,513
Securities sold short, not yet purchased	<u>1,347,668</u>	<u>1,279,869</u>
Total trading liabilities	<u><u>4,246,104</u></u>	<u><u>3,269,451</u></u>

7. Net Trading Revenue

The following table presents net trading revenue for the years ended December 31, 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)		
Debt securities	134,163	(12,538)	(29,677)
Equity securities	(65,663)	(3,768)	38,037
Foreign exchange spot contracts	(143,961)	98,101	(368,713)
Derivative instruments	<u>179,602</u>	<u>82,817</u>	<u>758,274</u>
Total net trading revenue	<u><u>104,141</u></u>	<u><u>164,612</u></u>	<u><u>397,921</u></u>

For the years ended December 31, 2008, 2009 and 2010, net unrealized holding gains on trading securities of (Won)74,578 million, net unrealized holding losses on trading securities of (Won)37,405 million, and net unrealized holding gains on trading securities of (Won)18,281 million, respectively, were included in net trading revenue.

8. Investments

Investments consisted of the following as of December 31, 2009 and 2010:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Available-for-sale securities	18,710,792	18,636,261
Held-to-maturity securities	12,609,767	13,075,976
Venture capital securities ⁽¹⁾	79,228	79,456
Other securities ⁽²⁾	1,845,604	2,119,722
Total investments	<u>33,245,391</u>	<u>33,911,415</u>

⁽¹⁾ Securities held by KB Investment Co., Ltd., a subsidiary engaged in venture capital activities.

⁽²⁾ Other securities comprised of equity securities without readily determinable fair values or with sales restrictions exceeding one year, and investments accounted for under the equity method.

As of December 31, 2009, the amortized cost and fair value of the Company's available-for-sale securities and held-to-maturity securities and the related gross unrealized gains and losses were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
	(In millions of Korean won)			
Available-for-sale securities:				
Debt securities:				
Korean treasury and government agencies	7,854,735	67,843	(30,976)	7,891,602
Corporate	1,182,982	104,782	(6,247)	1,281,517
Financial institutions	6,335,659	84,398	(15,294)	6,404,763
Asset-backed securities	1,998,573	1,082	(1,372)	1,998,283
Sub-total	<u>17,371,949</u>	<u>258,105</u>	<u>(53,889)</u>	<u>17,576,165</u>
Equity securities	<u>923,989</u>	<u>257,135</u>	<u>(46,497)</u>	<u>1,134,627</u>
Total available-for-sale securities	<u>18,295,938</u>	<u>515,240</u>	<u>(100,386)</u>	<u>18,710,792</u>
Held-to-maturity securities:				
Debt securities:				
Korean treasury and government agencies	8,991,806	106,419	(34,254)	9,063,971
Corporate	379,607	3,783	(1,448)	381,942
Financial institutions	2,994,994	47,537	(2,828)	3,039,703
Asset-backed securities	243,360	3,302	—	246,662
Total held-to-maturity securities	<u>12,609,767</u>	<u>161,041</u>	<u>(38,530)</u>	<u>12,732,278</u>

As of December 31, 2010, the amortized cost and fair value of the Company's available-for-sale securities and held-to-maturity securities and the related gross unrealized gains and losses were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
	(In millions of Korean won)			
Available-for-sale securities:				
Debt securities:				
Korean treasury and government agencies	8,093,940	123,560	(4,283)	8,213,217
Corporate	1,264,179	29,776	(8,922)	1,285,033
Financial institutions	5,945,592	67,230	(12,590)	6,000,232
Asset-backed securities	1,801,965	8,844	(171)	1,810,638
Sub-total	<u>17,105,676</u>	<u>229,410</u>	<u>(25,966)</u>	<u>17,309,120</u>
Equity securities	957,700	369,441	—	1,327,141
Total available-for-sale securities	<u>18,063,376</u>	<u>598,851</u>	<u>(25,966)</u>	<u>18,636,261</u>
Held-to-maturity securities:				
Debt securities:				
Korean treasury and government agencies	10,524,954	333,178	(7,250)	10,850,882
Corporate	572,838	14,755	(674)	586,919
Financial institutions	1,585,449	52,167	(594)	1,637,022
Asset-backed securities	392,735	5,580	(604)	397,711
Total held-to-maturity securities	<u>13,075,976</u>	<u>405,680</u>	<u>(9,122)</u>	<u>13,472,534</u>

The Bank of Korea, the Korea Development Bank ("KDB") and the Korea Finance Corporation ("KOFK") are financial institutions owned and controlled by the Korean government. The fair value of available-for-sale debt securities from financial institutions included (Won)2,993,060 million and (Won)2,733,264 million as of December 31, 2009 and 2010, respectively, which were issued by BOK, KDB and KOFK. The amortized cost of held-to-maturity debt securities from financial institutions included (Won)772,661 million and (Won)360,106 million as of December 31, 2009 and 2010, respectively, which were issued by BOK, KDB and KOFK.

Since 2007, there has been a decline in the fair value of the Company's asset-backed securities portfolio, specifically asset-backed Collateralized Debt Obligations ("CDOs") as a result of deteriorating conditions in the U.S. subprime credit market. The Company's total exposures to asset-backed CDOs at December 31, 2009 and 2010 were (Won)12,133 million and (Won)435 million, respectively. Due to the deterioration of U.S. credit markets, the fair value of the securities declined. Accordingly, the Company recorded (Won)10,138 million and (Won)901 million of impairment on asset-backed CDOs in 2009 and 2010, respectively, as the Company considered the losses to be other-than-temporary. The Company expects conditions in credit markets in the U.S. to remain uncertain for the foreseeable future. Therefore, continued deterioration in the U.S. credit markets could adversely affect the fair value of the asset-backed securities held by the Company.

The following table presents the total impairment losses on debt securities recognized in earnings for the year ended December 31, 2010:

	<u>Available- for-sale securities:</u>	<u>Held-to- maturity securities:</u>	<u>Total</u>
	(In millions of Korean won)		
Total other-than-temporary impairment losses (unrealized and realized) that the Company does not intend to sell nor will likely be required to sell	1,515	901	2,416
Less : Unrealized other-than-temporary impairment losses recognized in OCI	—	—	—
Net impairment losses recognized in earnings that the Company does not intend to sell nor will likely be required to sell	1,515	901	2,416
OTTI losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery	—	—	—
Total impairment losses recognized in earnings	<u>1,515</u>	<u>901</u>	<u>2,416</u>

The following table presents a rollforward of the credit loss component of OTTI losses that were recognized in income for the year ended December 31, 2010:

	<u>2010</u>
	(In millions of Korean won)
Balance, beginning of period	71,441
Credit impairment recognized in earnings on securities	2,416
Reductions due to sales of credit impaired securities sold or matured	(10,070)
Balance, end of period	<u>63,787</u>

For the years ended December 31, 2008, 2009 and 2010, the total impairment losses recognized on available-for-sale securities were (Won)224,925 million, (Won)6,667 million and (Won)1,515 million respectively, where decreases in fair value were deemed to be other-than-temporary. With respect to the held-to-maturity securities, the Company recognized (Won)17,218 million, (Won)8,208 million and (Won)901 million of impairment losses for the years ended December 31, 2008, 2009 and 2010, respectively. For the years ended December 31, 2008, 2009 and 2010, the Company also recognized (Won)205,681 million, (Won)247 million and (Won)145,450 million of impairment charges for other securities as the Company considered the decrease in fair value to be other-than-temporary.

The following table summarizes the gross unrealized losses and fair value of investment securities aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2009:

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
(In millions of Korean won)						
Available-for-sale securities						
Debt securities:						
Korean treasury and government agencies	3,950,885	(29,367)	66,864	(1,609)	4,017,749	(30,976)
Corporate	306,986	(1,953)	99,433	(4,294)	406,419	(6,247)
Financial institutions	3,701,037	(6,147)	141,471	(9,147)	3,842,508	(15,294)
Asset-backed securities	1,876,366	(1,372)	—	—	1,876,366	(1,372)
Equity securities	227,642	(46,497)	30	—	227,672	(46,497)
Total available-for-sale securities	<u>10,062,916</u>	<u>(85,336)</u>	<u>307,798</u>	<u>(15,050)</u>	<u>10,370,714</u>	<u>(100,386)</u>
Held-to-maturity securities						
Debt securities:						
Korean treasury and government agencies	1,541,618	(23,354)	721,816	(10,900)	2,263,434	(34,254)
Corporate	129,196	(1,187)	29,714	(261)	158,910	(1,448)
Financial institutions	112,664	(380)	177,605	(2,448)	290,269	(2,828)
Asset-backed securities	2,000	—	—	—	2,000	—
Total held-to-maturity securities	<u>1,785,478</u>	<u>(24,921)</u>	<u>929,135</u>	<u>(13,609)</u>	<u>2,714,613</u>	<u>(38,530)</u>
Total temporarily impaired securities	<u>11,848,394</u>	<u>(110,257)</u>	<u>1,236,933</u>	<u>(28,659)</u>	<u>13,085,327</u>	<u>(138,916)</u>

The following table summarizes the gross unrealized losses and fair value of investment securities aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2010:

	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
(In millions of Korean won)						
Available-for-sale securities						
Debt securities:						
Korean treasury and government agencies	920,872	(3,954)	10,991	(329)	931,863	(4,283)
Corporate	502,477	(3,000)	74,093	(5,922)	576,570	(8,922)
Financial institutions	2,116,284	(3,041)	103,048	(9,549)	2,219,332	(12,590)
Asset-backed securities	36,236	(171)	—	—	36,236	(171)
Total available-for-sale securities	<u>3,575,869</u>	<u>(10,166)</u>	<u>188,132</u>	<u>(15,800)</u>	<u>3,764,001</u>	<u>(25,966)</u>
Held-to-maturity securities						
Debt securities:						
Korean treasury and government agencies	650,651	(7,190)	3,716	(60)	654,367	(7,250)
Corporate	90,884	(674)	—	—	90,884	(674)
Financial institutions	154,882	(594)	—	—	154,882	(594)
Asset-backed securities	89,396	(604)	—	—	89,396	(604)
Total held-to-maturity securities	<u>985,813</u>	<u>(9,062)</u>	<u>3,716</u>	<u>(60)</u>	<u>989,529</u>	<u>(9,122)</u>
Total temporarily impaired securities	<u>4,561,682</u>	<u>(19,228)</u>	<u>191,848</u>	<u>(15,860)</u>	<u>4,753,530</u>	<u>(35,088)</u>

As of December 31, 2009 and 2010, the cost of debt and equity securities exceeded their fair value by (Won)138,916 million and (Won)35,088 million, respectively. The unrealized losses on these securities are not considered to be other-than-temporary because the unrealized losses resulted mainly from changes in the current market conditions and do not affect the expected cash flows of the underlying collateral or issuer. The Company has the ability and intent to hold these securities for a period of time sufficient to recover from the unrealized losses. Accordingly, the Company's management has determined that the decline in fair value of the above investment securities is considered temporary in nature.

For the years ended December 31, 2008 and 2009, the Company recognized net gains on venture capital securities and other securities of (Won)281,648 million and (Won)95,316 million, respectively. For the year ended December 31, 2010 the Company recognized net losses on venture capital securities and other securities of (Won)97,058 million.

For the years ended December 31, 2008, 2009 and 2010, proceeds from sales and maturities of available-for-sale securities amounted to (Won)21,716,908 million, (Won)33,065,165 million and (Won)23,794,622 million, respectively. Gross realized gains on available-for-sale securities amounted to (Won)97,930 million, (Won)191,945 million and (Won)178,043 million and gross realized losses on available-for-sale securities amounted to (Won)38,370 million, (Won)14,645 million and (Won)3,616 million for the years ended December 31, 2008, 2009, and 2010, respectively.

The expected maturity distribution of the amortized cost and estimated fair value of the Company's available-for-sale and held-to-maturity debt securities at December 31, 2010 by contractual maturity are shown

in the table below. The actual maturities may differ from the expected maturities or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-sale debt securities</u>		<u>Held-to-maturity debt securities</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
	(In millions of Korean won)			
Due in one year or less	5,641,694	5,698,191	1,704,886	1,723,891
Due after one year through five years	9,384,244	9,490,550	8,581,717	8,859,141
Due after five years through ten years	500,764	535,213	2,688,712	2,784,603
Due after ten years	1,578,974	1,585,166	100,661	104,899
Total	17,105,676	17,309,120	13,075,976	13,472,534

The fair value of beneficiary certificates included in the other securities is determined using the net asset value (“NAV”) per share of the Company’s ownership interest in the funds.

	<u>Fair Value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
	(In millions of Korean won)			
Private equity fund	45,895	260,252	—	—

There is no standard redemption frequency nor is a prior notice period required.

9. Variable Interest Entities

In the normal course of its business, the Company is a party to various entities which may be deemed to be variable interest entities such as asset-backed securitizations of loans, various investment funds, guaranteed trusts and SPEs created for structured financing. The Company also, in the ordinary course of its business, has involvement with certain VIEs through various types of interests, including investments in subordinated debt, the right to receive fees for acting as an asset manager or a business trustee, and the right to receive fees for providing liquidity facilities.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. In accordance with the new consolidation guidance effective January 1, 2010, the Company is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. As a result of this change in accounting, the Company deconsolidated certain VIEs that were consolidated prior to January 1, 2010. The net effect of the accounting change on January 1, 2010 was a decrease in shareholder’s equity by (Won) 14,195 million, net-of-tax. Total assets and total liabilities decreased by (Won)84,282 million and (Won)70,087 million, respectively, as of January 1, 2010.

The Company consolidates VIEs in which the Company has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company takes into account all of its involvement with a VIE in identifying variable interests (explicit or implicit) that individually or in the aggregate could be significant enough to warrant its designation as the primary beneficiary and hence require it to consolidate the VIE or otherwise require it to make appropriate disclosures under ASC 810.

The Company generally classifies its involvement in VIEs as follows:

- Asset-backed securitization of loans
- VIEs created for structured financing
- Liquidity provided to VIEs

- Investment trusts
- Others

Asset-backed securitization of loans

The Company utilizes SPEs to securitize loans. The Company transfers loans to the SPEs which in turn issue asset backed securities collateralized by the transferred loans. In these securitizations, various classes of debt securities are issued to the Company and third parties, and the SPEs have mainly issued subordinated notes to the Company, an assets transferor. The subordinated notes are designed to absorb losses that potentially could be significant to the SPEs. These SPEs are deemed to be VIEs and are generally consolidated when the Company is the primary beneficiary because the Company has the power to direct the activities of the VIEs that most significantly impact the economic performance of the SPEs and holds subordinated notes which could result in potentially significant losses from the SPEs. The third party holders of asset backed securities issued by consolidated VIEs have recourse only to the asset of the VIEs and do not have recourse to the Company. The Company does not consolidate the VIEs when the Company does not have either power to direct the activities of the VIE that most significantly impact the VIE's economic performance or an obligation to absorb losses that could potentially be significant to the VIE.

VIEs created for structured financing

The Company enters into lending arrangements with VIEs for the purpose of financing projects or the acquisition of assets. The Company has determined that third parties have both the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance and an obligation to absorb losses that could potentially be significant to the VIEs when there are credit enhancement commitments, such as financial guarantees by third parties, and therefore does not consolidate the VIEs.

Liquidity provided to VIEs

The Company provides liquidity facilities to VIEs which are structured by third parties other than the Company. Liquidity facilities to VIEs represent irrevocable commitments to provide contingent liquidity credit lines to the VIEs. The Company would have an obligation to absorb some losses by providing liquidity facilities but it could not potentially be significant to the VIEs. The Company does not consolidate the VIEs because the Company does not have the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance.

Investment trusts

The Company has consolidated its guaranteed fixed rate money trusts because the Company was deemed to be the primary beneficiary. The Company would have both the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance and an obligation to absorb losses that could potentially be significant to the VIE by providing a guarantee of the principal and a fixed rate of return on the principal amount invested. Other trusts such as performance based trusts or guaranteed principal money trusts are deemed to be VIEs but are not consolidated because the Company does not have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

Others

The Company also has involvement in VIEs through investment in CDOs, beneficiary interests and others. The Company evaluates which party has both the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance and obligation to absorb losses that could potentially be significant to the VIE. The VIEs are not consolidated when the Company does not have either power to direct the activities of the VIE that most significantly impact the VIE's economic performance or an obligation to absorb losses that could potentially be significant to the VIE.

In accordance with ASC 810, the Company has consolidated all VIEs for which the Company was determined to be the primary beneficiary. The following table represents the carrying amount of assets held by VIEs as of December 31, 2009, which have been consolidated by the Company:

	Asset-backed securitization of loans	Liquidity provided to VIEs	Investment trusts	Others	Total
(In millions of Korean won)					
Assets held by VIEs					
Investments	23,252	—	27,601	216,760	267,613
Loans	904,605	88,266	436	14,906	1,008,213
Other assets	165,866	155	1,131	186	167,338
Total	<u>1,093,723</u>	<u>88,421</u>	<u>29,168</u>	<u>231,852</u>	<u>1,443,164</u>
Liabilities held by VIEs					
Long-term debt	—	521	—	47,174	47,695
Secured borrowings	878,481	69,898	—	—	948,379
Other liabilities	4,350	2,543	1,248	9,525	17,666
Total	<u>882,831</u>	<u>72,962</u>	<u>1,248</u>	<u>56,699</u>	<u>1,013,740</u>

The following table represents the carrying amount of assets and liabilities held by VIEs as of December 31, 2010, which have been consolidated by the Company.

	Asset-backed securitization of loans	Liquidity provided to VIEs	Investment trusts	Others	Total
(In millions of Korean won)					
Assets held by VIEs					
Investments	—	—	1,249,956	285,120	1,535,076
Loans	583,158	—	343	—	583,501
Other assets	54,152	—	45,872	273	100,297
Total	<u>637,310</u>	<u>—</u>	<u>1,296,171</u>	<u>285,393</u>	<u>2,218,874</u>
Liabilities held by VIEs					
Other borrowed fund	—	—	—	47,000	47,000
Secured borrowings	556,925	—	—	—	556,925
Other liabilities	20,883	—	51,501	10,184	82,568
Total	<u>577,808</u>	<u>—</u>	<u>51,501</u>	<u>57,184</u>	<u>686,493</u>

In addition to the VIEs that are consolidated in accordance with ASC 810, the Company has significant variable interests in certain other VIEs that are not consolidated because the Company is not the primary beneficiary. These VIEs are structured by other third parties and the Company does not have an obligation to absorb the majority of the entities' losses nor does it have a right to receive a majority of the entities' expected residual returns. These VIEs facilitate client transactions, and the Company provides the VIEs with administration services. The transactions with the VIEs are conducted at arm's length, and individual credit decisions are based on the analysis of the specific VIEs, taking into consideration the quality of the underlying assets. The Company records and reports these transactions with the VIEs similar to any other third party transactions. All liquidity facilities provided to these VIEs are included in the Company's credit-related commitments described in more detail in Note 31.

The following disclosures regarding the Company's significant continuing involvement with unconsolidated VIEs exclude entities where the Company's only involvement is in the form of certain derivatives, such as

interest rate swaps or cross currency swaps that have customary terms, administrative or trustee services and investments accounted for under the cost method. The total assets, liabilities and maximum exposure to loss as a result of the involvement in significant VIEs, which have not been consolidated at December 31, 2009, are as follows:

	<u>Investments</u>	<u>Loans</u>	<u>Other Assets</u>	<u>Total Assets involvement</u>	<u>Other Liabilities</u>	<u>Total Liabilities involvement</u>	<u>Total Assets of VIE</u>	<u>Maximum exposure ⁽¹⁾</u>
	(In millions of Korean Won)							
Asset-backed securitization of loans	—	—	—	—	117,368	117,368	501,713	—
VIEs created for structured financing	24,227	4,239,641	1,095	4,264,963	398,801	398,801	24,144,455	6,272,058
Liquidity provided to VIEs	9,387	54,767	23	64,177	3,002	3,002	2,761,518	1,667,999
Investment trusts	861,217	—	—	861,217	280,667	280,667	10,210,958	4,643,434
Others	70,168	36,344	—	106,512	—	—	5,473,333	109,212
Total	<u>964,999</u>	<u>4,330,752</u>	<u>1,118</u>	<u>5,296,869</u>	<u>799,838</u>	<u>799,838</u>	<u>43,091,977</u>	<u>12,692,703</u>

⁽¹⁾ Represents the carrying amount of equity interests and debt interests held by the Company or guarantees provided by the Company as of December 31, 2009.

The following table presents, by type of VIE, the total assets, liabilities and maximum exposure to loss as a result of the involvement in significant VIEs, which have not been consolidated at December 31, 2010:

	<u>Investments</u>	<u>Loans</u>	<u>Other Assets</u>	<u>Total Assets involvement</u>	<u>Other Liabilities</u>	<u>Total Liabilities involvement</u>	<u>Total Assets of VIE</u>	<u>Maximum exposure ⁽¹⁾</u>
	(In millions of Korean Won)							
Asset-backed securitization of loans	—	—	—	—	111,850	111,850	420,618	—
VIEs created for structured financing	24,777	3,384,163	—	3,408,940	401,165	401,165	23,781,663	5,061,744
Liquidity provided to VIEs	61,001	154,236	—	215,237	46	46	2,999,282	1,407,555
Investment trusts	1,086,930	—	137,818	1,224,748	137,818	137,818	11,644,974	5,007,724
Others	137,066	87,189	28	224,283	5	5	5,472,710	227,285
Total	<u>1,309,774</u>	<u>3,625,588</u>	<u>137,846</u>	<u>5,073,208</u>	<u>650,884</u>	<u>650,884</u>	<u>44,319,247</u>	<u>11,704,308</u>

⁽¹⁾ Represents the carrying amount of equity interests and debt interests held by the Company or guarantees provided by the Company as of December 31, 2010.

The Company's maximum exposure to loss is based on the unlikely event that all of the assets in the VIEs become worthless and incorporates not only potential losses associated with assets recorded on the Company's balance sheet but also potential losses associated with off-balance sheet commitments such as unfunded liquidity commitments and other contractual arrangements.

10. Loans

The following table provides information by loan type as of December 31, 2009 and 2010.

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Domestic		
Commercial:		
Commercial and industrial ⁽¹⁾	74,611,001	74,608,512
Construction	8,096,574	6,421,718
Other commercial ⁽²⁾	2,178,037	2,349,976
Consumer:		
Mortgage	44,221,131	41,155,936
Home equity	26,457,188	29,287,399
Other consumer ⁽³⁾	26,949,582	27,789,903
Credit cards:		
Credit cards	11,368,321	12,394,702
Foreign ⁽⁴⁾	2,343,550	2,487,575
Gross loans	196,225,384	196,495,721
Deferred origination costs, net	569,988	698,624
Less: Allowance for loan losses	(3,341,046)	(4,247,326)
Total loans, net ⁽⁵⁾	<u>193,454,326</u>	<u>192,947,019</u>

⁽¹⁾ Commercial and industrial loans include (Won)29,359 million and (Won)54,303 million of loans to the Korean government and government related agencies as of December 31, 2009 and 2010, respectively.

⁽²⁾ Other commercial loans include bills bought in foreign currency and overdrafts.

⁽³⁾ Other consumer loans include personal overdrafts and loans with principal due at maturity.

⁽⁴⁾ Foreign loans consist of (Won)2,421,894 million of commercial loans and (Won)65,681 million of consumer loans

⁽⁵⁾ Total pledged loans amounted to (Won)4,956,728 million and (Won)2,130,765 million as of December 31, 2009 and 2010, respectively (See Note 31).

For the years ended December 31, 2008, 2009 and 2010, the Company received equity securities having a fair market value of (Won)40 million, (Won)10,716 million, and (Won)52,486 million, respectively, through the restructuring of 13, 51, and 58 loans, respectively, having an aggregate book value of (Won)4,777 million, (Won)26,660 million, and (Won)70,347 million, respectively. The Company recognized aggregate charge-offs of (Won)4,737 million, (Won)15,944 million, and (Won)17,861 million, in 2008, 2009 and 2010, respectively, related to these transactions.

Korea Housing Finance Corporation (“KHFC”), a government owned entity, which was established on March 1, 2004 in accordance with the Korea Housing Finance Corporation Act, has developed a new mortgage loan sale scheme to provide opportunity for long-term investment and to stimulate the domestic housing market. Under the new scheme, the Company entered into a mortgage loan sale and servicing agreement with KHFC, and underwrites mortgage loans at fixed interest rates and transfers them to KHFC within a short period of time after origination. These loans are written with the intention of transfer to KHFC and have an average contractual maturity of 20 years. These loans are transferred at their carrying value and the Company retains no risk, but retains various servicing responsibilities with regard to the collection and administration of the loans, as well as servicing rights, and receives servicing fees in return.

The Company sold mortgage loans with an aggregate principal balance of (Won)471,960 million and (Won)524,997 million to KHFC and recognized (Won)16,465 million and (Won)15,668 million of servicing fee income for the years ended December 31, 2009 and 2010, respectively. In relation to these transactions, the Company recorded loans held for sale as of December 31, 2009 and 2010 amounting to (Won)201,275 million and (Won)73,460 million, respectively, which are included in “Other assets” (See Note 12).

Loan delinquency and Non-accrual Details

Loans are generally placed on non-accrual status when principal or interest payments become contractually one day past due or are classified as impaired loans, except where the loans are fully collateralized by customer deposits or guaranteed by sovereign or certain selected financial institutions. This non-accrual loan policy is consistently applied to all classes of loans. Delinquency status is carefully monitored and considered a key indicator of credit quality.

The following table provides details on the Company's loan delinquency by class as of December 31, 2010.

	Less than 1 months past due	1~3 months past due	3~6 months past due	6 months or more past due	Total past due	Current ⁽¹⁾	Total loans
(In millions of Korean won)							
Domestic							
Commercial:							
Commercial and industrial	267,884	236,031	343,751	422,585	1,270,251	73,338,261	74,608,512
Construction	28,235	81,005	21,575	117,257	248,072	6,173,646	6,421,718
Other commercial	503	933	55	1,849	3,340	2,346,636	2,349,976
Consumer:							
Mortgage	523,570	156,440	134,669	55,892	870,571	40,285,365	41,155,936
Home equity	258,201	42,062	29,272	30,110	359,645	28,927,754	29,287,399
Other consumer	260,074	114,155	53,214	85,953	513,396	27,276,507	27,789,903
Credit cards:							
Credit cards	161,687	89,417	15,085	149	266,338	12,128,364	12,394,702
Foreign	19,902	—	—	5,044	24,946	2,462,629	2,487,575
Total ⁽²⁾	<u>1,520,056</u>	<u>720,043</u>	<u>597,621</u>	<u>718,839</u>	<u>3,556,559</u>	<u>192,939,162</u>	<u>196,495,721</u>

⁽¹⁾ Loans which principal or interest payments are not contractually one day past due are considered current.

⁽²⁾ Includes loans that have been modified in a Troubled Debt Restructuring (TDR). TDRs are treated as performing loans and returned to current status at the time of modification. TDRs are subsequently measured for delinquency based on the modified contractual terms of the loan.

The following table summarizes the amount of loans on non-accrual status and accruing loans which are past due one or more day by class as of December 31, 2010.

	Nonaccrual loan	1 or more day past due and still accruing ⁽¹⁾
(In millions of Korean won)		
Domestic		
Commercial:		
Commercial and industrial	2,007,749	60,725
Construction	697,788	14,462
Other commercial	6,810	—
Consumer:		
Mortgage	1,022,998	110,453
Home equity	497,080	—
Other consumer	559,648	91,310
Credit cards:		
Credit cards	246,810	—
Foreign	—	7,972
Total	<u>5,038,883</u>	<u>284,922</u>

⁽¹⁾ Commercial, consumer, credit cards, foreign past due 90 days or more and still accruing amounted to (Won)6,908 million, (Won)57,068 million, (Won)0 million and (Won)0 million, respectively.

Credit quality indicators

The Company monitors credit quality within its three portfolio segments based on primary credit quality indicators. These credit quality indicators are based on assessments as of December 31, 2010. The primary credit quality indicator for commercial loans including foreign loans is the risk rating assigned each loan. Risk ratings updated at least yearly are used to identify the credit quality of loans and differentiate risk within the portfolio. Management considers several factors to determine an appropriate risk rating, including the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry in which the obligor operates.

Where Korean external ratings are used, investment-grade ratings are considered to be BBB- and above, while anything below is considered non-investment grade. The Company's internal ratings are in line with the related external rating system. Non-investment grade ratings have a higher probability of total loss than investment grade ratings.

Within the Consumer and Credit card loan portfolio segments, the primary credit quality indicators are classified based on the loan classification, refreshed monthly. The Consumer and Credit card loans are internally classified by the Company as Precautionary, Substandard, Doubtful or Estimated loss according to the Financial Services Commission's asset classification guidelines. These assets pose an elevated risk and may have a high probability of total loss.

The tables below present certain information about credit quality indicators related to the Company's commercial loan, consumer loan and credit card loan portfolio segments at December 31, 2010.

1) Commercial

	<u>Investment grade</u>	<u>Non-investment grade ⁽¹⁾</u>	<u>Total</u>
	(In millions of Korean won)		
Commercial and industrial	26,050,125	48,558,387	74,608,512
Construction	1,814,695	4,607,023	6,421,718
Other commercial	1,900,006	449,970	2,349,976
Foreign	1,086,355	1,335,539	2,421,894
Total	<u>30,851,181</u>	<u>54,950,919</u>	<u>85,802,100</u>

⁽¹⁾ Not-rated loans are included in Non-investment grade category.

2) Consumer

	<u>Normal</u>	<u>Precautionary</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Estimated loss</u>	<u>Total</u>
	(In millions of Korean won)					
Mortgage	40,514,528	331,228	96,368	193,292	20,250	41,155,936
Home equity	28,996,624	166,837	107,950	11,189	4,799	29,287,399
Other consumer	27,264,573	350,930	64,177	95,081	15,142	27,789,903
Foreign	64,399	—	923	338	21	65,681
Total	<u>96,840,124</u>	<u>848,995</u>	<u>269,418</u>	<u>299,900</u>	<u>40,482</u>	<u>98,298,919</u>

3) Credit cards

	<u>Normal</u>	<u>Precautionary</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Estimated loss</u>	<u>Total</u>
	(In millions of Korean won)					
Credit cards	<u>12,153,081</u>	<u>179,591</u>	<u>3,531</u>	<u>38,013</u>	<u>20,486</u>	<u>12,394,702</u>

Impaired loans and Troubled Debt Restructurings

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include the commercial, consumer and credit cards TDRs.

The following table summarizes key information for impaired loans as of December 31, 2010.

	December 31, 2010			
	<u>Unpaid Principal Balance</u>	<u>Impaired loans (1)(2)</u>	<u>Impaired loans with related allowance for credit losses</u>	<u>Related allowance for credit losses</u>
	(In millions of Korean won)			
Domestic				
Commercial:				
Commercial and industrial	3,021,271	2,507,401	2,403,642	1,197,221
Construction	1,310,135	1,248,698	1,229,476	787,881
Other commercial	42,478	42,060	41,266	6,724
Consumer:				
Mortgage	59	59	59	2
Home equity	2	2	2	—
Other consumer	3,337	3,337	3,337	935
Credit cards:				
Credit cards	19,245	19,241	19,241	3,036
Foreign	43,296	43,296	18,156	8,692
Total	<u>4,439,823</u>	<u>3,864,094</u>	<u>3,715,179</u>	<u>2,004,491</u>

(1) Impaired loans exclude net deferred loan origination fees and costs.

(2) Impaired loans include (Won)466,130, (Won)3,398, (Won)19,241, and (Won)0 million of commercial, consumer, credit cards and foreign loans related to troubled debt restructurings, respectively.

The following table provides the average balance of impaired loans and the amount of interest income recognized on impaired loans after impairment by portfolio segment and class.

	<u>Average balance of impaired loans</u>	<u>Interest income recognized (1)(2)</u>
	(In millions of Korean won)	
Domestic		
Commercial:		
Commercial and industrial	3,074,564	144,649
Construction	1,038,044	48,650
Other commercial	11,489	574
Consumer:		
Mortgage	72	5
Home equity	2	—
Other consumer	1,237	81
Credit cards:		
Credit cards	30,609	6,416
Foreign	51,449	139
Total	<u>4,207,466</u>	<u>200,514</u>

- (1) Had the impaired loans performed in accordance with their original terms, additional interest income of (Won)84,923 million would have been recorded in 2010.
(2) Of these amounts, (Won)34,555 million as of December 31, 2010, relate to troubled debt restructurings.

The adverse economic conditions in the Korean economy may continue to have a negative effect on debtors of the Company. The Company owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectability of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential continuation of adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserve for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Company's consolidated financial statements.

The table below summarizes the changes in the allowance for credit losses for the years ended December 31:

	2008			2009			2010		
	Loans	Off-balance sheet credit instruments ⁽¹⁾	Total	Loans	Off-balance sheet credit instruments ⁽¹⁾	Total	Loans	Off-balance sheet credit instruments ⁽¹⁾	Total
	(In millions of Korean won)								
Allowance at January 1, before effect of the adoption of new consolidation guidance	1,864,029	243,385	2,107,414	3,043,535	421,381	3,464,916	3,341,046	403,202	3,744,248
Allowance related to adoption of new consolidation guidance	—	—	—	—	—	—	(43,207)	185	(43,022)
Allowance at January 1,	1,864,029	243,385	2,107,414	3,043,535	421,381	3,464,916	3,297,839	403,387	3,701,226
Provision for (reversal of provision for) credit losses	2,141,631	171,823	2,313,454	2,216,169	(12,176)	2,203,993	3,238,100	329,940	3,568,040
Charge-offs	(1,564,778)	—	(1,564,778)	(2,383,566)	—	(2,383,566)	(2,831,686)	—	(2,831,686)
Recoveries	598,399	—	598,399	457,893	—	457,893	520,703	—	520,703
Other	4,254	6,173	10,427	7,015	(6,003)	1,012	22,370	(2,454)	19,916
Allowance at December 31,	<u>3,043,535</u>	<u>421,381</u>	<u>3,464,916</u>	<u>3,341,046</u>	<u>403,202</u>	<u>3,744,248</u>	<u>4,247,326</u>	<u>730,873</u>	<u>4,978,199</u>

- (1) The allowance for off-balance sheet credit instruments is included in "Other liabilities".

The table below represents the allowance and the carrying value of loans by portfolio segment at December 31, 2010.

	Loans				Off-balance sheet credit instruments			
	Commercial	Consumer	Credit cards	Total	Commercial	Consumer	Credit cards	Total
	(In millions of Korean won)							
Allowance at January 1, before effect of the adoption of new consolidation guidance	2,677,731	461,142	202,173	3,341,046	204,757	91,117	107,328	403,202
Allowance related to adoption of new consolidation guidance	(43,207)	—	—	(43,207)	185	—	—	185
Allowance at January 1,	2,634,524	461,142	202,173	3,297,839	204,942	91,117	107,328	403,387
Provision for (reversal of provision for) credit losses	2,732,037	385,581	120,482	3,238,100	353,855	6,493	(30,408)	329,940
Charge-offs	(1,913,698)	(517,035)	(400,953)	(2,831,686)	—	—	—	—
Recoveries	133,289	142,249	245,165	520,703	—	—	—	—
Other	23,325	—	(955)	22,370	(2,454)	—	—	(2,454)
Allowance at December 31,	<u>3,609,477</u>	<u>471,937</u>	<u>165,912</u>	<u>4,247,326</u>	<u>556,343</u>	<u>97,610</u>	<u>76,920</u>	<u>730,873</u>

The following table disaggregates our allowance for loan losses and loan balance by impairment methodology as of December 31, 2010.

	Commercial	Consumer	Credit cards	Total
	(In millions of Korean won)			
Individually evaluated for impairment				
Loan balance	3,841,455	3,398	19,241	3,864,094
Allowance for loan losses	<u>2,000,518</u>	<u>937</u>	<u>3,036</u>	<u>2,004,491</u>
Collectively evaluated for impairment				
Loan balance	81,960,645	98,295,521	12,375,461	192,631,627
Allowance for loan losses	<u>1,608,959</u>	<u>471,000</u>	<u>162,876</u>	<u>2,242,835</u>
Total Loans				
Loan balance	85,802,100	98,298,919	12,394,702	196,495,721
Allowance for loan losses	<u>3,609,477</u>	<u>471,937</u>	<u>165,912</u>	<u>4,247,326</u>

11. Premises and Equipment

Premises and equipment, net as of December 31, 2009 and 2010 consisted of the following:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Land	531,196	530,586
Buildings	1,041,861	1,062,590
Equipment and furniture	1,724,314	1,594,063
Leasehold improvements	395,437	428,450
Leased property under capital leases	33,045	33,045
Construction in progress	350	119
Total	<u>3,726,203</u>	<u>3,648,853</u>
Less: Accumulated depreciation	<u>(2,109,052)</u>	<u>(2,170,666)</u>
Premises and equipment, net	<u>1,617,151</u>	<u>1,478,187</u>

The Company incurred depreciation expense on its buildings, equipment and furniture, leasehold improvements and leased property under capital leases of (Won)327,441 million, (Won)337,956 million and (Won)260,428 million for the years ended December 31, 2008, 2009 and 2010, respectively, which is included in "Depreciation and amortization" in the consolidated statements of income.

12. Other Assets

Other assets as of December 31, 2009 and 2010 consisted of the following:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Accounts receivable	264,373	142,176
Payments in advance	118,163	10,100
Deferred tax assets, net	30,232	203,765
Prepaid expenses	196,209	198,301
Prepaid income tax	622	144,214
Loans held for sale ⁽¹⁾	201,275	73,460
Fair value hedge derivatives	48,070	108,944
Income tax receivable	575,057	27,310
Others	<u>33,662</u>	<u>260,951</u>
Total	<u>1,467,663</u>	<u>1,169,221</u>

⁽¹⁾ Included (Won)201,275 million of mortgage loans as of December 31, 2009 and (Won)73,460 million of mortgage loans as of December 31, 2010, which will be sold to KHFC.

13. Goodwill and Other Intangible Assets

The following table presents goodwill as of December 31, 2009 and 2010 allocated to each of the Company's business segments, as defined in Note 35:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Corporate Banking	145,985	145,985
Credit Card Operations	248,472	248,472
Other	<u>184,993</u>	<u>191,447</u>
Total	<u>579,450</u>	<u>585,904</u>

As of December 31, 2009 and 2010, the outstanding balances of goodwill, which resulted from the respective mergers with Korea Long Term Credit Bank and Kookmin Credit Card, were (Won)162,205 million and (Won)232,252 million, respectively. The amount related to Korea Long Term Credit Bank was allocated to Corporate Banking and Credit Card Operations, and the amount related to Kookmin Credit Card was allocated to Credit Card operations. In addition, the Company recognized (Won)117,238 million with respect to the acquisition of KB Investment and Securities Co., Ltd. (formerly Hannuri Investment & Securities Co., Ltd.), (Won)66,757 million for the acquisition of the noncontrolling interests owned by KB Asset Management Co., Ltd., and (Won)998 million for the acquisition of 51% of voting rights of Khmer Bank and allocated the combined amount to others. The reorganization of Powernet Technologies Corporation was completed on February 12, 2010, resulted in the recognition of goodwill of (Won)6,454 million which was allocated to the 'Other' segment and inclusion of the entity as consolidated entity.

There were no indefinite-lived intangible assets for any of the periods presented. Other intangible assets, which are subject to amortization, primarily include core deposit and credit card relationship intangibles, as well as capitalized software costs. The gross carrying amount and accumulated amortization related to other intangible assets as of December 31, 2009 and 2010 are presented below.

	December 31, 2009			December 31, 2010		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated Amortization	Net carrying amount
	(In millions of Korean won)					
Core deposit intangible	397,836	(397,836)	—	397,836	(397,836)	—
Credit card relationship intangible ⁽¹⁾	131,876	(131,876)	—	131,876	(131,876)	—
Credit card relationship intangible ⁽²⁾	75,000	(60,525)	14,475	75,000	(65,250)	9,750
Capitalized software costs	353,020	(198,868)	154,152	495,386	(240,194)	255,192
Leased property under capital leases	13,656	(2,465)	11,191	13,656	(5,879)	7,777
Others	40,090	(29,193)	10,897	59,908	(57,307)	2,601
Total	<u>1,011,478</u>	<u>(820,763)</u>	<u>190,715</u>	<u>1,173,662</u>	<u>(898,342)</u>	<u>275,320</u>

⁽¹⁾ Recognized with respect to the merger of H&CB

⁽²⁾ Recognized with respect to the merger of KCC

The aggregate amortization expenses of other intangible assets in 2008, 2009, and 2010 were (Won)79,746 million, (Won)93,051 million and (Won)99,140 million respectively, and are included in "Depreciation and amortization" in the consolidated statements of income. The amortization expenses related to other intangible assets over their remaining useful lives are expected to be (Won)101,622 million, (Won)89,492 million, (Won)61,192 million, (Won)22,986 million and (Won)16 million for 2011, 2012, 2013, 2014, and 2015, respectively.

14. Deposits

Deposits as of December 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>	Weighted average rate paid for 2010
	(In millions of Korean won)		
Interest-bearing deposits:			
Time deposits	90,416,765	116,152,598	3.62%
Savings deposits	48,007,195	54,099,973	0.42%
Certificate of deposits	23,081,256	2,346,928	4.03%
Mutual installment deposits	3,690,582	3,427,103	3.05%
Interest-bearing demand deposits	883,123	819,595	1.27%
Total interest-bearing deposits	<u>166,078,921</u>	<u>176,846,197</u>	2.73%
Non-interest-bearing deposits:			
Demand deposits	<u>3,104,147</u>	<u>3,081,938</u>	
Total deposits	<u><u>169,183,068</u></u>	<u><u>179,928,135</u></u>	2.68%

In accordance with the Bank of Korea Act, banks are required to maintain reserves of 0% to 7% of customer deposits with the Bank of Korea, which is recorded as restricted cash in the consolidated balance sheet (See Note 4).

The scheduled contractual maturities of time deposits, certificates of deposit and mutual installment deposits as of December 31, 2010 were as follows:

	(In millions of Korean won)
2011	114,580,577
2012	2,859,450
2013	2,924,004
2014	414,731
2015	533,389
Thereafter	614,478
Total	<u><u>121,926,629</u></u>

The Korea Deposit Insurance Corporation (“KDIC”) provides deposit insurance up to a total of (Won)50 million per depositor in each bank pursuant to the Depositor Protection Act for deposits maturing after January 1, 2001, regardless of the placement date of the deposit. For the insurance covered by KDIC, the Company recorded a premium of 0.18% of the average deposits which amounted to (Won)207,264 million, (Won)219,915 million and (Won)237,852 million in 2008, 2009 and 2010, respectively.

15. Other Borrowed Funds

A summary of other borrowed funds as of December 31, 2009 and 2010 is presented below.

	2009		2010	
	Outstanding balance	Weighted average interest rate	Outstanding balance	Weighted average interest rate
(In millions of Korean won)				
Kookmin Bank				
Borrowings from the Bank of Korea	1,343,725	1.25%	930,653	1.22%
Borrowings in foreign currencies	2,771,349	2.85%	2,828,324	1.24%
Borrowings from trust accounts managed by the Bank	1,658,160	1.76%	1,834,461	1.90%
Debentures in Won	2,117,331	4.67%	1,895,502	4.94%
Other borrowings	64,839	3.80%	75,586	3.28%
Subtotal	<u>7,955,404</u>	2.84%	<u>7,564,526</u>	2.35%
Subsidiaries				
Borrowings from other financial Institutions	162,654	5.74%	158,866	5.05%
Borrowings in foreign currencies	58,228	2.29%	301,808	0.93%
Debentures in Won	—	— %	750,000	6.65%
Subtotal	<u>220,882</u>	4.83%	<u>1,210,674</u>	5.01%
Total	<u>8,176,286</u>	2.82%	<u>8,775,200</u>	2.61%

Other borrowed funds are defined as borrowed funds with original maturities of less than one year.

16. Secured Borrowings

The Company transferred certain loans and investment securities to SPEs, which in turn issued beneficial interests collateralized by such loans. These transactions did not meet the conditions for a sale under ASC 860 and have been accounted for as secured borrowings. As a result, the loans and securities collateralizing these borrowings are included in “Loans” and “Trading Assets” and the beneficial interests issued by the SPEs, which paid interest at rates of 1.50% to 7.25% per annum as of December 31, 2010, are included in “Secured borrowings.”

In addition, the Company has sold securities under repurchase agreement having maturities in one year or less, which are also classified as secured borrowings. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

The components of the secured borrowings and related collateral as of December 31, 2009 were as follows:

	2009			
	Maturity	Secured borrowings (In millions of Korean Won)	Collateral	
Loans			Securities	
KB 1 st Mortgage Loan Specialty Co., Ltd. 1.76% senior collateralized bond obligation	2039	540,520	591,976	—
KB 12 th ABS Specialty Co., Ltd. 7.00%-8.50% senior collateralized bond obligation	2010~2011	70,000	22,330	—
KB 13 th ABS Specialty Co., Ltd. 3.82%-6.41% senior collateralized bond obligation	2010~2011	165,000	120,586	—
New Star 1 st ABS Specialty Co., Ltd. 4.65%-5.05% commercial papers	2010	100,000	—	99,285
Eubora ABS Specialty Co., Ltd. 4.05%-4.45% senior collateralized bond obligation	2010	70,000	69,662	—
KAMCO Value Recreation 3 rd ABS Specialty Co., Ltd. 6.27% senior collateralized bond obligation	2012	3,258	3,346	—
Other 7.25% senior collateralized bond obligation	2014	1,141,845	4,148,828	—
Other 1.29%-7.40% securities sold under repurchase agreement	2010	2,605,262	—	4,325,842
Gross secured borrowings		4,695,885	4,956,728	4,425,127
Discount		(26,157)	—	—
Total		<u>4,669,728</u>	<u>4,956,728</u>	<u>4,425,127</u>

The components of the secured borrowings and related collateral as of December 31, 2010 were as follows:

	2010			
	Maturity	Secured borrowings (In millions of Korean Won)	Collateral	
Loans			Securities	
KB 1 st Mortgage Loan Specialty Co., Ltd. 2.11% senior collateralized bond obligation	2039	423,379	521,932	—
KB 14 th ABS Specialty Co., Ltd. 6.03%-6.57% senior collateralized bond obligation	2011-2012	30,000	35,638	—
New Star 1 st ABS Specialty Co., Ltd. 4.65%-5.05% commercial papers	2011	100,300	—	100,985
KAMCO Value Recreation 3 rd ABS Specialty Co., Ltd. 5.08% senior collateralized bond obligation	2012	3,258	8,167	—
Other 7.25% senior collateralized bond obligation	2014	1,136,852	1,565,028	—
Other 1.50%-4.90% securities sold under repurchase agreement	2011	977,958	—	3,207,845
Gross secured borrowings		2,671,747	2,130,765	3,308,830
Discount		(20,678)	—	—
Total		<u>2,651,069</u>	<u>2,130,765</u>	<u>3,308,830</u>

Secured borrowings maturity schedule

The combined aggregate amounts of all secured borrowings by contractual maturities as of December 31, 2010 were as follows:

	(In millions of Korean won)
Due in 2011	1,093,258
Due in 2012	18,258
Due in 2013	—
Due in 2014	1,136,852
Due in 2015	—
Thereafter	423,379
Gross secured borrowings	2,671,747
Discount	(20,678)
Total	<u>2,651,069</u>

17. Long-term Debt

The following table is a summary of long-term debt (net of unamortized original issue discount) as of December 31, 2009 and 2010:

	<u>Interest rate</u>	<u>Maturity</u>	<u>2009</u>	<u>2010</u>
		(In millions of Korean won)		
Senior				
Kookmin Bank				
Won currency				
Notes payable to Ministry of Finance and Economy	1.72%~5.00%	2011~2025	84,332	76,495
Notes payable to Korea Development Bank	2.00%~3.29%	2011~2019	47,406	56,252
Notes payable to other government funds	0.00%~4.25%	2011~2026	589,940	599,728
Notes payable to Industrial Bank of Korea	2.72%~3.49%	2011~2016	19,473	10,654
Floating rate finance debentures ⁽¹⁾	4.29%~12.00%	2011~2027	1,446,122	3,680,885
Finance debentures	2.94%~7.95%	2011~2013	21,218,836	11,300,682
Other notes payable	1.20%~5.40%	2011~2024	1,783,816	2,059,494
Subtotal			<u>25,189,925</u>	<u>17,784,190</u>
Foreign currency				
Floating rate finance debentures ⁽¹⁾	0.49%~5.45%	2011~2012	2,462,677	1,263,080
Finance debentures	1.17%~5.88%	2011~2013	591,376	1,089,259
Floating rate notes payable ⁽¹⁾	0.69%~5.45%	2011~2012	1,420,185	1,340,895
Other notes payable	1.70%	2011	—	145,347
Subtotal			<u>4,474,238</u>	<u>3,838,581</u>
Subsidiaries				
Finance debentures	5.30%~6.00%	2012~2017	800,000	50,000
Borrowings from other financial institutions in Won	1.00%~4.70%	2017~2022	50,461	27,551
Borrowings from Small and Medium Company Promotion Fund			17,692	—
Subtotal			<u>868,153</u>	<u>77,551</u>
Subordinated				
Kookmin Bank				
Won currency				
Finance debentures	4.38~8.5%	2011~2039	9,042,350	8,386,090
Subsidiaries				
Won Currency				
Other borrowings			695	—
Gross long-term debt			39,575,361	30,086,412
Discount			(5,452)	(6,280)
Total long-term debt, net			<u>39,569,909</u>	<u>30,080,132</u>

⁽¹⁾ Interest rates on floating rate debt are those rates in effect at December 31, 2010.

Long-term debt is predominately denominated in Won, U.S. dollars and Japanese yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the three-month or six-month London Inter-bank Offered Rate ("LIBOR") and the monthly Public Fund Prime Rate published by the Korean government and are reset on a monthly, quarterly and semi-annual basis. The weighted-average interest rates for long-term debt were 5.18% and 5.08% as of December 31, 2009 and 2010, respectively.

Debt maturity schedule

The combined aggregate amounts of all long-term debt by contractual maturities as of December 31, 2010 were as follows:

	(In millions of Korean won)
Due in 2011	10,011,500
Due in 2012	7,387,991
Due in 2013	2,075,068
Due in 2014	4,767,098
Due in 2015	377,793
Thereafter	5,466,962
Gross long-term debt	30,086,412
Discount	(6,280)
Total long-term debt, net	<u>30,080,132</u>

Certain borrowing agreements of the Company contain covenants that limit the Company's ability to pledge the assets to secure indebtedness, to dispose, sell or transfer assets or to enter into arrangements having a similar effect. As of December 31, 2008, the Company had failed to comply with the covenants due to financing activities undertaken in the ordinary course of the Company's business activities.

Consequently, during the first quarter of 2009, the Company amended covenants contained in certain borrowings as of December 31, 2008 and the Company repaid the borrowings whose agreements were not amended. As of December 31, 2010, the Company is in compliance with the covenants contained in the borrowing agreements.

18. Other Liabilities

Other liabilities as of December 31, 2009 and 2010 were comprised of the following:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Accrued severance benefits	175,987	138,230
Accrued expenses	301,134	295,508
Accounts payable	649,119	637,508
Unearned income	160,426	111,762
Tax withholdings and income tax payable	197,821	132,202
Guarantee deposits received	142,264	142,990
Deferred tax liabilities	102,285	11,011
Fair value hedge derivatives	209,929	217,891
Due to agencies	344,668	381,896
Allowance for losses on off-balance sheet credit instruments	403,202	730,873
Payments received on behalf of government and others	218,415	271,566
Others	449,510	754,119
Total	<u>3,354,760</u>	<u>3,825,556</u>

19. Non-interest Income

The components of non-interest income for the years ended December 31, 2008, 2009 and 2010 were as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)		
Trust fees, net	165,459	188,980	212,819
Other fees and commission income:			
Commissions received on fund management	87,642	53,876	43,979
Commissions and fees received for brokerage and agency activities	373,735	324,262	339,072
Commissions received on credit cards	1,034,409	1,090,138	1,191,390
Commissions received in remittance	11,945	9,832	9,029
Commissions received on cash dispenser service	80,339	76,124	75,819
Commissions received on letters of credit	54,020	54,484	56,107
Bancassurance fees received	170,247	131,887	147,198
Other	568,354	609,289	542,917
Subtotal	<u>2,380,691</u>	<u>2,349,892</u>	<u>2,405,511</u>
Net trading revenue	104,141	164,612	397,921
Net gain (loss) on investments:			
Debt securities	(13,954)	140,591	148,868
Equity securities	(177,303)	32,014	(79,101)
Other	281,648	95,317	(97,058)
Subtotal	<u>90,391</u>	<u>267,922</u>	<u>(27,291)</u>
Other non-interest income:			
Gain on sale of loans	13,329	80,211	83,366
Other	198,268	461,829	290,819
Subtotal	<u>211,597</u>	<u>542,040</u>	<u>374,185</u>
Total non-interest income	<u>2,952,279</u>	<u>3,513,446</u>	<u>3,363,145</u>

20. Non-interest Expenses

The components of non-interest expenses for the years ended December 31, 2008, 2009 and 2010 were as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)		
Salaries and employee benefits:			
Salaries and other benefits	2,161,635	2,062,838	2,625,543
Provision for accrued severance benefits	<u>173,348</u>	<u>154,716</u>	<u>156,102</u>
Subtotal	<u>2,334,983</u>	<u>2,217,554</u>	<u>2,781,645</u>
Depreciation and amortization:			
Depreciation on premises and equipment	327,441	337,956	260,428
Amortization of other intangible assets	<u>79,746</u>	<u>93,051</u>	<u>99,140</u>
Subtotal	<u>407,187</u>	<u>431,007</u>	<u>359,568</u>
Other administrative expenses	875,278	857,087	920,140
Credit card fees:			
Commissions paid on credit cards	372,874	416,314	554,695
Commissions paid on troubled credit cards	<u>906</u>	<u>968</u>	<u>1,113</u>
Subtotal	<u>373,780</u>	<u>417,282</u>	<u>555,808</u>
Other fees and commissions:			
Insurance fees on deposits to KDIC	207,264	219,915	237,852
Contribution to guarantee funds	335,088	334,875	328,044
Commissions on overdue loans	2	—	1
Other	<u>284,081</u>	<u>315,633</u>	<u>332,488</u>
Subtotal	<u>826,435</u>	<u>870,423</u>	<u>898,385</u>
Other non-interest expenses:			
Loss on sale of loans	16,622	31,242	28,183
Loss on disposition of assets	1,094	3,284	1,291
Tax expenses other than income tax	142,270	120,593	119,596
Other	<u>343,180</u>	<u>793,619</u>	<u>484,360</u>
Subtotal	<u>503,166</u>	<u>948,738</u>	<u>633,430</u>
Total non-interest expenses	<u>5,320,829</u>	<u>5,742,091</u>	<u>6,148,976</u>

21. Common Stock

Capital stock

The Company has 1,000 million authorized shares of common stock with (Won)5,000 par value, of which 386,351,693 shares were issued as of December 31, 2009 and 2010, and 343,028,989 shares (net of 43,322,704 treasury shares) were outstanding as of December 31, 2009 and 2010, respectively.

Treasury stock

Treasury stock transactions are recorded at cost. The changes in the treasury stock of the Company for the years ended December 31, 2008, 2009 and 2010 were as follows:

<u>Description</u>	<u>Shares increase</u>	<u>Shares decrease</u>	<u>Net changes</u>
Shares at January 1, 2008			<u>26,082</u>
2008	73,636,201	26,232,012	47,404,189
2009	43,412	4,150,979	(4,107,567)
2010	—	—	—
Shares at December 31, 2010			<u>43,322,704</u>

In 2008, the Company purchased 28,600 shares and sold 32,082 shares through a private equity fund. Also, the Company purchased 73,607,601 shares and sold 26,199,930 shares upon the stock transfer in connection with the establishment of the financial holding company as more fully described in Note 3.

In 2009, the Company purchased 43,412 shares and sold 66,012 shares through a private equity fund. Also, the Company sold 4,084,967 shares upon the stock transfer in connection with the establishment of the financial holding company as more fully described in Note 3.

22. Retained Earnings

Korean regulations require the Company to appropriate retained earnings for certain purposes. Appropriated and unappropriated retained earnings as of December 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>
	<u>(In millions of Korean won)</u>	
Appropriated retained earnings:		
Legal reserve	1,502,440	1,566,040
Reserve for financial structure improvement	55,600	55,600
Other statutory reserves	5,021	5,021
Unappropriated retained earnings	<u>9,215,063</u>	<u>8,470,256</u>
Total	<u>10,778,124</u>	<u>10,096,917</u>

The Banking Act requires banks to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income, as reported in the Company's unconsolidated financial statements under generally accepted accounting principles in Korea (Korean GAAP), until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Company's board of directors.

In 2002, the Finance Supervisory Service recommended that companies in the Korean Federation of Banks appropriate at least 10 percent of their net income after deducting accumulated deficit to a reserve for financial structure improvement, until the simple capital ratio equals 5.5 percent. This reserve is not available for payment of cash dividends; however, it can be used to reduce a deficit or be transferred to capital.

The Kookmin Bank's branch in Japan is required to appropriate a legal reserve of up to 10% of annual income, as reported in the Japan Branch of Kookmin Bank's financial statements under generally accepted accounting principles in Japan, until such reserve equals two billion Japanese yen. This reserve is used only to reduce any accumulated deficit related to the branch in Japan and is recorded in "Other statutory reserves".

As of December 31, 2009 and 2010, total balances of accumulated restricted retained earnings were (Won)1,563,061 million and (Won)1,626,661 million, respectively.

Dividends

Dividends payable to the equity stockholders are based on the unappropriated retained earnings available for distribution, which is defined in Korean Commercial Law, as reported in the Company's non-consolidated financial statements prepared in accordance with Korean GAAP. Hence, the unappropriated retained earnings available for dividend distribution in accordance with U.S. GAAP may, in certain years, either not be fully available or will be additionally available for distribution to the equity stockholders. Further, dividends are declared and paid in Korean won. Treasury shares are excluded from the dividend distribution. The Company has reported unappropriated retained earnings of (Won)1,116,531 million and (Won)1,076,494 million in its Korean GAAP non-consolidated financial statements as of December 31, 2009 and 2010, respectively. With respect to unappropriated retained earnings available for the payment of dividends as of December 31, 2009, at the annual general meeting of stockholders on March 26, 2010, the stockholders of the Company approved the payment of a cash dividend of 4.60% to stockholders of record as of December 31, 2009, and cash dividend amounting to (Won)78,897 million was paid on March 28, 2010. With respect to unappropriated retained earnings available for the payment of dividends as of December 31, 2010, at the annual general meeting of stockholders on March 25, 2011, the stockholders of the Company approved the payment of a cash dividend of 2.40% to stockholders of record as of December 31, 2010, and cash dividend amounting to (Won)41,163 million was paid on April 8, 2011.

Kookmin Bank has reported unappropriated retained earnings of (Won)7,539,785 million and (Won)7,392,080 million respectively, as of December 31, 2009 and 2010, in its Korean GAAP non-consolidated financial statements. With respect to unappropriated retained earnings available for the payment of dividends as of December 31, 2009, on March 25, 2010, the Company approved the payment of a cash dividend of 3.84% to stockholders of record as of December 31, 2009 and cash dividend amounting to (Won)95,305 million was paid on March 26, 2010. However, with respect to unappropriated retained earnings available for the payment of dividends as of December 31, 2010, the Company approved no payment of a cash dividend to stockholders on March 24, 2011.

23. Components of Accumulated Other Comprehensive Income (Loss)

Comprehensive income includes net income plus transactions and other occurrences that are the result of non-owner changes in equity. For the years ended December 31, 2008, 2009, and 2010, the non-owner equity changes were composed of foreign currency translation adjustments and unrealized gains and losses on investment securities, net of taxes. Below are the components of accumulated other comprehensive income (loss) and the related tax effects for the years ended December 31, 2008, 2009 and 2010.

	Foreign currency translation adjustments	Net unrealized gains (losses) on investment securities <small>(In millions of Korean won)</small>	Accumulated other comprehensive income (loss), net
Balance, January 1, 2008	(41,972)	(91,014)	(132,986)
Foreign currency translation adjustments, net of tax expense of (Won) 34,755 million	91,626	—	91,626
Unrealized holding gains on investment securities, net of tax expense of (Won)148,183 million	—	389,479	389,479
Less: Reclassification adjustment for losses included in net income, net of tax expense of (Won)15,880 million	—	41,790	41,790
Current period change	<u>91,626</u>	<u>431,269</u>	<u>522,895</u>
Balance, December 31, 2008	<u>49,654</u>	<u>340,255</u>	<u>389,909</u>
Foreign currency translation adjustments, net of tax benefit of (Won) 31,907 million	(116,657)	—	(116,657)
Unrealized holding gains on investment securities, net of tax expense of (Won)28,737 million	—	105,810	105,810
Less: Reclassification adjustment for gains included in net income, net of tax benefit of (Won)49,170 million	—	(134,411)	(134,411)
Current period change	<u>(116,657)</u>	<u>(28,601)</u>	<u>(145,258)</u>
Balance, December 31, 2009	<u>(67,003)</u>	<u>311,654</u>	<u>244,651</u>
Foreign currency translation adjustments, net of tax expense of (Won) 13,422 million	(30,487)	—	(30,487)
Unrealized holding gains on investment securities, net of tax expense of (Won)69,580 million	—	255,618	255,618
Less: Reclassification adjustment for gains included in net income, net of tax benefit of (Won)41,411 million	—	(96,619)	(96,619)
Current period change	<u>(30,487)</u>	<u>158,999</u>	<u>128,512</u>
Balance, December 31, 2010	<u>(97,490)</u>	<u>470,653</u>	<u>373,163</u>

24. Regulatory Requirements

In conformity with the Financial Supervisory Service (“FSS”) and the Basel Committee on Banking Regulations and Supervisory Practice guidelines, Kookmin Bank, a subsidiary of the Company, applies risk-adjusted capital ratios to evaluate its capital adequacy. The capital adequacy guidelines adopt the so called BASEL II, the approach of risk-weighted capital measure based on the framework developed and proposed by the Basel Committee on Banking Supervision of the Bank for International Settlements (“BIS”).

Under the capital adequacy guidelines, banking institutions with international operations are required to maintain a minimum 8% total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%.

The capital ratios are calculated based on Kookmin Bank's consolidated balance sheets prepared in accordance with Korean GAAP which may vary in certain significant respects from U.S. GAAP. In the event Kookmin Bank does not maintain a consolidated capital adequacy ratio of 8%, it is subject to corrective actions recommended by the FSS based on the actual financial position and capital ratio of Kookmin Bank. Management of Kookmin Bank believes that Kookmin Bank met all capital adequacy requirements to which it is subject as of December 31, 2009 and 2010. However, events beyond management's control, such as fluctuations in interest rates or a downturn in the economy could adversely affect future earnings and consequently, Kookmin Bank's ability to meet its future capital requirements.

The following capital ratios are calculated in accordance with and as defined by the FSS guideline, which is materially consistent with BIS guidelines and Kookmin Bank's consolidated financial statements prepared in accordance with Korean GAAP as of December 31:

	2009	2010
	(In millions of Korean won, except capital ratios)	
Tier 1 capital	16,734,532	16,865,112
Tier 2 capital	4,973,120	3,935,533
Total risk-adjusted capital	<u>21,707,652</u>	<u>20,800,645</u>
Risk-Weighted Assets		
Risk-weighted assets for credit risk ⁽¹⁾	139,926,727	140,742,572
Risk-weighted assets for market risk ⁽²⁾	2,071,648	1,807,537
Risk-weighted assets for operating risk ⁽³⁾	12,595,000	12,255,401
Total risk-weighted assets	<u>154,593,375</u>	<u>154,805,510</u>
Capital Adequacy Ratios (%)		
Tier 1 capital ratio (%)	10.82	10.89
Tier 2 capital ratio (%)	<u>3.22</u>	<u>2.55</u>
Capital adequacy ratio (%)	14.04	13.44

⁽¹⁾ Calculated by Foundation Internal Ratings-Based Approach

⁽²⁾ Calculated by Internal Models Method

⁽³⁾ Calculated by Advanced Measurement Approach

In addition, the Company, as a bank holding company, is required under the capital adequacy requirements of the Financial Services Commission to maintain a minimum consolidated capital adequacy ratio of 8.0%. "Consolidated capital adequacy ratio" is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with Financial Services Commission requirements that have been formulated based on Bank of International Settlements. "Equity capital," as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items (each as defined under the Regulation on the Supervision of Financial Holding Companies). "Risk-weighted assets" is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The following table sets forth a summary of the Company's consolidated capital adequacy ratio as of December 31, 2009 and 2010, based on applicable Korean GAAP and regulatory reporting standards:

	2009	2010
	(In millions of Korean won, except ratios)	
Risk-weighted assets	182,664,075	183,077,983
Equity capital	24,360,262	23,948,343
Consolidated capital adequacy ratio	13.34%	13.08%

25. Income Tax

The components of income tax expense for the years ended December 31, 2008, 2009 and 2010 were as follows:

	For the years ended December 31,		
	2008	2009	2010
	(In millions of Korean won)		
National tax:			
Current	513,390	175,628	187,277
Deferred	(61,888)	26,765	(255,379)
Tax expense (benefit) recognized under ASC 740	(38,914)	(13,771)	344,564
Total national income tax expense	412,588	188,622	276,462
Local tax:			
Current	51,339	17,562	18,728
Deferred	(6,189)	2,677	(25,538)
Tax expense (benefit) recognized under ASC 740	(3,891)	(1,377)	34,456
Total local income tax expense	41,259	18,862	27,646
Total income tax expense	453,847	207,484	304,108

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities and foreign currency translation. The tax effects of these items are recorded directly in total equity.

Income tax on the operating profit differs from the theoretical amount that would arise at the statutory tax rate of the home country of the Company as follows:

	2008	2009	2010
	(In millions of Korean won)		
Income from continuing operations for the years ended December 31,	1,786,785	926,053	(288,416)
Statutory tax rates	27.5%	24.2%	24.2%
Prima facie tax calculated at a statutory tax rate	491,366	224,105	(69,797)
Income not assessable for tax purposes	(138,343)	(59,999)	(35,290)
Expenses not deductible for tax purposes	168,944	35,184	68,468
Taxation on outside basis	27,372	3,045	18,050
Adjustment for overseas tax rates	24,925	(5,980)	(15,374)
Change in statutory tax rate	(53,524)	13,997	(28,209)
Increase in valuation allowance	(19,760)	6,484	(3,793)
Korean government tax assessment	(42,805)	(15,059)	379,020
Others	(4,328)	5,707	(8,967)
Income tax expense	453,847	207,484	304,108
Effective tax rate	25.4%	22.4%	(105.44)%

Pursuant to amendments to the Corporation Income Tax Law in 2008, the statutory tax rates changed from 14.3% for the first (Won)100 million and 27.5% for any excess amount in 2007 to 12.1% for the first (Won)200 million and 27.5% for any excess amount in 2008, 12.1% for the first (Won)200 million and 24.2% for the excess amount in 2009, and 11% for the first (Won)200 million and 22.0% for the excess amount in 2010 and thereafter.

Pursuant to amendments to the Corporation Income Tax Law in 2009, the statutory tax rates changed from 12.1% for the first (Won)200 million and 24.2% for the excess amount in 2009 to 11% for the first (Won)200 million and 24.2% for the excess amount in 2010 and 2011, and 11% for the first (Won)200 million and 22.0% for the excess amount in 2012 and thereafter.

As a result of the changes in statutory tax rates, income tax expense increased by (Won)13,997 million and deferred income tax liabilities related to temporary differences and other comprehensive income increased by (Won)6,201 million and (Won)7,796 million, respectively, in 2009.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets (“DTA”) and deferred income tax liabilities (“DTL”) as of December 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Deferred income tax assets:		
Allowance for loan losses	—	8,337
Other liabilities	197,615	292,309
Valuation of trading assets and investments	88,383	111,929
Premises and equipment	143,750	147,971
Long-term debt	1,369	16,503
Net operating loss	39,253	32,710
Total gross deferred income tax assets	<u>470,370</u>	<u>609,759</u>
Less: Valuation allowance	<u>(84,746)</u>	<u>(80,954)</u>
Deferred income tax assets	<u>385,624</u>	<u>528,805</u>
Deferred income tax liabilities:		
Allowance for loan losses	242,141	—
Valuation of trading assets and available-for-sale securities	102,284	138,861
Accrued interest and dividend receivable	16,966	84,576
Other assets	43,964	24,863
Other temporary differences	52,322	87,751
Total gross deferred income tax liabilities	<u>457,677</u>	<u>336,051</u>
Net deferred income tax assets (liabilities), including other comprehensive income (“OCI”) related DTA (DTL)	<u>(72,053)</u>	<u>192,754</u>
Less: Net OCI related DTA (DTL)	<u>(84,443)</u>	<u>(137,187)</u>
Net deferred income tax assets, excluding net OCI related DTA (DTL)	<u>12,390</u>	<u>329,941</u>

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Management believes it is uncertain whether certain subsidiaries will generate sufficient profits to offset their tax losses in 2009 and 2010. Accordingly, a valuation allowance totaling (Won)84,746 million and (Won)80,954 million as of December 2009 and 2010, respectively, was recognized for deferred income tax assets related to net operating loss carryforwards (“NOLs”) and temporary differences that may not be realized.

As of December 31, 2010, the Company, including its subsidiaries had (Won)148,485 million of NOLs. These losses are expected to expire in the periods from 2011 to 2019.

As the Company decided to adopt a ‘Consolidated Tax return System’ starting 2010, the tax expense or benefit is calculated including its wholly-owned subsidiaries. NOLs calculated before applying the consolidated tax return system can be deducted only from the relevant taxable income of the individual entity.

The beginning balance of unrecognized tax benefits reconciles to the balance as of December 31, 2009 and 2010 in the following table:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Total unrecognized tax benefits at January 1	41,750	45,172
Amount of increase for current year’s tax position	3,483	707
Gross amount of increases for prior years’ tax position	—	268,616
Gross amount of decreases for prior years’ tax position	(13)	(15,197)
Reductions due to lapse of statutes of limitation	(48)	(41)
Total unrecognized tax benefits at December 31	<u>45,172</u>	<u>299,257</u>

Any changes in the amounts of unrecognized tax benefits related to temporary differences would result in a reclassification to deferred tax liability, and any changes in the amounts of unrecognized tax benefits related to permanent differences would result in an adjustment to income tax expense and effective tax rate. As of December 31, 2009 and 2010, the unrecognized tax benefits included above which would, if recognized, affect the effective tax rate are (Won)31,836 million and (Won)299,257 million, respectively.

In accordance with ASC 740, the Company recorded (Won)575,057 million and (Won)27,310 million as of December 31, 2009 and 2010, respectively as “Other Assets” that the Company expects to receive through a court appeal according to the more-likely-than-not recognition criteria under the standard. (See Note 12).

The Company’s continuing practice is to recognize interest and penalties, if any, related to income tax matters in income tax expense. Pursuant to the adoption of ASC 740, the Company recorded income tax benefits for penalties and interest previously paid to the Korean tax authorities that it expects to be refunded. The Company recorded income tax benefits for penalties of (Won)111,686 million and (Won)(126) million as of December 31, 2009 and 2010, respectively, and also recorded income tax benefits for interest of (Won)62,896 million and (Won)1,884 million as of December 31, 2009 and 2010, respectively.

The Company does not expect any changes in unrecognized tax benefits would have a material impact on income tax expense during the next 12 months.

In 2007, the National Tax Service completed their regular examination of the Company’s income tax returns for the years 2002 through 2005, and as a result of the tax audit, the Company received (Won)189,509 million of tax assessments in May 2007 and received an additional tax assessment of (Won)292,337 million in July 2007. The Company paid the entire amount of such additional assessments in 2007, but filed an appeal with the National Tax Tribunal with respect to tax assessments made in 2007 amounting to (Won)481,846 million (including residence tax).

Before 2010, the Company’s management had believed that the Company’s tax deductions were appropriate and appealed the assessment to the National Tax Tribunal. However, most of these appeals were dismissed in March 2010, the Company derecognized the tax benefit of (Won)409,973 million and disclosed it as unrecognized tax benefits in 2010.

The Company filed an appeal with Seoul Administrative Court, which ruled in favor of the Company on April 1, 2011. On April 19, 2011, the National Tax Service of Korea appealed this case to the Seoul High Court, where it is currently pending.

The Company's major tax jurisdiction is the Republic of Korea, and as of December 31, 2010, all tax years subsequent to 2005 remain open to examination.

26. Earnings Per Share ("EPS")

The following table is a summary of the computation of earnings per share for the years ended December 31

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won, except share data)		
Net income (loss)	1,332,938	718,569	(592,524)
Net income (loss) attributable to noncontrolling interests, net of tax	6,974	(2,072)	(4,409)
Net income (loss) attributable to stockholders for basic EPS	1,325,964	720,641	(588,115)
Net income (loss) attributable to stockholders for diluted EPS	1,325,964	720,641	(588,115)
Weighted average common shares outstanding applicable to basic EPS (In thousands)	330,498	325,397	343,029
Dilutive effect of stock options	—	—	—
Adjusted weighted average common shares outstanding applicable to diluted EPS (In thousands) (*)	<u>330,498</u>	<u>325,397</u>	<u>343,029</u>
Basic earnings per share:			
Net income (loss) attributable to stockholders	<u>4,012</u>	<u>2,215</u>	<u>(1,714)</u>
Diluted earnings per share:			
Net income (loss) attributable to stockholders	<u>4,012</u>	<u>2,215</u>	<u>(1,714)</u>

(*) The numbers of weighted average common shares outstanding in 2008 and 2009 were adjusted by the effect of stocks issuance in September 2009 whose exercise price at issuance was less than the fair value of the stock. Additionally, the stock issuance contains a bonus element that is somewhat similar to a stock dividend. Therefore, the basic EPS was adjusted retroactively for the bonus element for all periods presented.

Stock options excluded from the computation of diluted earnings per share, due to their anti-dilutive effect, totaled nil, nil, and nil in 2008, 2009 and 2010, respectively.

27. Employee Severance Plan

Employees with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rates of pay at the time of termination (the "severance plan"). Under the Korean National Pension Fund Law, the Company was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. Additionally, the Company contributes voluntarily a certain percentage of employee severance benefits to a severance insurance deposit account ("Severance Insurance Deposit") maintained for the benefit of employees at an insurance company. The Company has no additional liability once the amount has been contributed; thus the Company deducts contributions made to the National Pension Fund and the Severance Insurance Deposit from its accrued employee severance plan obligations. The compensation cost of employees' severance benefit is recognized based on the vested benefits to which the employees are entitled if they separate immediately.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment ("interim severance payment"). Severance plan payments include the amount for such withdrawal. Total interim severance payments made by the Company were (Won)14,078 million, (Won)409,605 million and (Won)159,944 million in 2008, 2009, and 2010, respectively.

In addition to regular termination benefits, the Company recognized special termination benefits of (Won)89,965 million, (Won)0 million and (Won)555,238 million to 402, nil and 3,244 employees, respectively, who accepted early retirement for the years ended December 31, 2008, 2009, and 2010, respectively.

The Company accrued severance benefits of (Won)173,348 million, (Won)154,716 million and (Won)156,102 million for the years ended December 31, 2008, 2009 and 2010, respectively.

The amounts contributed to the severance insurance deposit account were (Won)102,974 million (Won)157,032 million and (Won)119,951 million for the years ended December 31, 2008, 2009 and 2010, respectively.

Accrued employee severance plan obligations included in “Other liabilities” as of December 31 were as follows:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Balance at beginning of the year	849,414	593,054
Severance benefit	154,716	156,102
Plan payments	<u>(411,076)</u>	<u>(244,373)</u>
	593,054	504,783
Less: Balance of payments remaining with National Pension Fund and Severance Insurance Deposit	<u>(417,067)</u>	<u>(366,553)</u>
Balance at end of the year	<u>175,987</u>	<u>138,230</u>

The Company expects to pay the following future benefits to its employees upon their normal retirement age of 58:

	(In millions of Korean won)
2011	2,522
2012	2,628
2013	2,665
2014	5,239
2015	23,626
2016 – 2020	263,467

The above amounts have been determined based on the employees’ current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

28. Employee Stock Option Plan

Employee stock-based compensation plan

In 2008, the Company introduced stock grants as part of the stock-based compensation plan. Stock grants are granted at no cost upon the completion of a vesting period. The Company granted 299,252 grants which are subject to service requirements and the quantity is indexed to the sum of the major 3 competitors’ total market capitalization, return on asset, and total asset size.

In 2009, the Company granted 268,882 stock grants which are subject to service requirements and the quantity is indexed to the sum of the major 3 competitors’ total market capitalization, return on asset, and total asset size.

In 2010, the Company granted 793,449 stock grants which are subject to service requirements and the quantity is indexed to the sum of the major 3 competitors’ total market capitalization, return on asset, and total asset size.

The grants granted (a) are subject to service or performance based requirements, (b) have an exercise price of (Won)0 and (c) the quantity is indexed to the banking industry index. The grants vest over one to three years from the date of grant. The grants will be partly exercised on vesting date, and the remaining will be deferred and exercised over the period of three years.

The options granted (a) are subject to service or performance based requirements and (b) have a fixed exercise price or an exercise price that is indexed to the banking industry index. Generally, the options granted vest over three years from the date of grant. The exercise period ranges from 5 years to 7 years post completion of the three-year vesting period.

For options granted under all of the above plans, the Company may elect either to issue common shares or allocate treasury shares, or pay in cash or treasury shares the difference between the market price and the exercise price. The market price is determined by the arithmetic average of the weighted average of every closing price for two months, one month and one week immediately preceding the exercise of the option, published by Korea Exchange.

The following table summarizes the information about stock option activity under the Company's stock-based compensation plans for the years ended December 31, 2008, 2009 and 2010:

	2008		2009		2010	
	Number of stock options	Weighted average exercise price (Won)	Number of stock options	Weighted average exercise price (Won)	Number of stock options	Weighted average exercise price (Won)
Outstanding, beginning of year	3,810,844	64,775	3,458,351	62,458	3,229,932	64,314
Granted	—	—	—	—	—	—
Exercised	(29,550)	32,053	(151,853)	43,932	(21,690)	40,479
Forfeited	(322,943)	77,359	(76,566)	75,341	(914,634)	54,331
Outstanding, end of year	3,458,351	62,458	3,229,932	64,314	2,293,608	68,520
Exercisable at year-end	1,876,585	50,012	2,667,395	61,617	2,293,608	68,520

The following table summarizes the information about the Company's stock grants for the years ended December 31, 2008, 2009 and 2010:

	2008	2009	2010
(Number of Stock Grants)			
Outstanding, beginning of year	—	194,108	312,639
Granted	299,252	268,882	793,449
Vested	(5,386)	(15,914)	(122,994)
Forfeited	(99,758)	(134,437)	(134,002)
Outstanding, end of year	194,108	312,639	849,092

In connection with the stock-based compensation plan, the Company recognized an expense reversal of (Won)20,139 million, and (Won)23,039 million of expenses and (Won)4,800 million of expense for the years ended December 31, 2008, 2009 and 2010, respectively.

Total fair value of shares vested during 2008, 2009 and 2010 were (Won)3,459 million (Won)1,143 million and (Won)5,963 million respectively.

The fair value of each option award is estimated using a Black-Scholes option pricing model based on the assumptions noted in the table below. Expected volatility is based on the historical volatility of the Company's stock. The expected term represents the period of time that options granted are expected to be outstanding. The

expected term is estimated using employees' actual historical behavior and projected future behavior based on expected exercise patterns. The risk-free interest rate is based on the Korean government treasury bond rate where the remaining term equals the expected term. Dividend yield is based on the Company's historical dividend payout ratio. The assumptions that were used for the valuation of each option at the grant date for the years ended December 31, 2008, 2009, and 2010 are as follows:

<u>For options granted during</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Expected annual dividend yield	3.03%	2.79%	1.29%
Expected volatility	47.62%	42.60%	32.81%
Risk-free interest rate	3.24%	3.63%	3.01%
Expected option life	2.2 years	1.5 years	1.3 years

The fair value of each grant awarded is estimated using a Monte-Carlo simulation model based on the assumptions noted in the table below because the Black-Scholes model cannot be used in this case as the exercisable number of stock grants changes when the market price changes. Expected volatility is based on the historical volatility of the Company's stock. The expected term represents the period of time that grants' requisite period would end. The risk-free interest rate is based on the Korean government treasury bond rate where the remaining term equals the expected term. Dividend yield is based on the Company's historical dividend payout ratio. The assumptions that were used for the valuation of each stock grant for the years ended December 31, 2008, 2009, and 2010 are as follows:

<u>For options granted during</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Expected annual dividend yield	3.03%	2.79%	1.29%
Expected volatility	59.02%	54.29%	43.27%
Risk-free interest rate	3.31%	3.56%	3.01%
Expected option life	1.7 years	1.1 years	1.7 years

The following table summarizes the information about stock options outstanding as of December 31, 2010:

Exercise price (Won)	Options outstanding				Options exercisable			
	Number of stock options ⁽¹⁾	Weighted average remaining contractual life ⁽²⁾	Weighted average exercise price (Won)	Intrinsic value (Mil Won)	Number of stock options	Weighted average exercise price (Won)	Intrinsic value (Mil Won)	
42,200	3,351	0.2	42,200	51	3,351	42,200	51	
43,800	26,712	0.2	43,800	366	26,712	43,800	366	
58,600	10,000	0.2	58,600	—	10,000	58,600	—	
35,500	51,303	0.2	35,500	1,129	51,303	35,500	1,129	
40,500	5,091	0.7	40,500	87	5,091	40,500	87	
46,100	54,250	1.1	46,100	618	54,250	46,100	618	
48,500	10,000	1.2	48,500	90	10,000	48,500	90	
48,800	10,000	1.2	48,800	87	10,000	48,800	87	
46,800	450,928	2.2	46,800	4,825	450,928	46,800	4,825	
61,000	10,182	2.2	61,000	—	10,182	61,000	—	
60,300	5,077	2.2	60,300	—	5,077	60,300	—	
63,800	10,031	2.2	63,800	—	10,031	63,800	—	
63,600	10,072	2.2	63,600	—	10,072	63,600	—	
51,600	90,000	2.2	51,600	531	90,000	51,600	531	
45,700	8,827	2.3	45,700	104	8,827	45,700	104	
49,200	29,441	2.6	49,200	244	29,441	49,200	244	
53,000	7,212	2.6	53,000	32	7,212	53,000	32	
85,100	5,000	3.2	85,100	—	5,000	85,100	—	
75,200	444,237	3.2	75,200	—	444,237	75,200	—	
81,900	21,459	3.2	81,900	—	21,459	81,900	—	
77,900	59,750	3.2	77,900	—	59,750	77,900	—	
80,000	27,878	3.2	80,000	—	27,878	80,000	—	
77,800	29,770	3.2	77,800	—	29,770	77,800	—	
80,300	163,557	3.2	80,300	—	163,557	80,300	—	
81,900	25,613	3.3	81,900	—	25,613	81,900	—	
76,600	18,987	3.8	76,600	—	18,987	76,600	—	
77,100	657,498	4.1	77,100	7,089	657,498	77,100	7,089	
84,500	15,246	4.2	84,500	33	15,246	84,500	33	
71,538	22,146	0.2	71,538	—	22,146	71,538	—	
129,100	9,990	0.2	129,100	—	9,990	129,100	—	
	<u>2,293,608</u>				<u>2,293,608</u>			

⁽¹⁾ Number of stock options vested and expected to vest were 2,293,608.

⁽²⁾ Contractual life indicates the sum of service (vesting) period and exercise period.

The following table summarizes the information about stock grants outstanding as of December 31, 2010:

Grant Date	Number of stock grants ⁽¹⁾	Weighted average Remaining contractual life ⁽²⁾	Intrinsic Value (Mil Won)
2008-03-28	4,787	1.61	275
2008-09-29	1,521	0.00	87
2008-10-18	7,365	1.90	423
2009-07-30	10,499	0.51	604
2009-08-27	2,328	1.00	134
2009-09-28	67,990	0.98	3,909
2009-11-18	4,976	1.89	286
2010-01-01	989	2.00	57
2010-01-01	74,567	2.00	4,288
2010-01-01	28,751	2.00	1,653
2010-01-01	14,674	2.00	844
2010-05-10	23,376	2.14	1,344
2010-05-31	186,080	2.41	10,700
2010-07-01	2,432	2.12	140
2010-07-21	2,638	2.01	152
2010-07-29	150	2.00	9
2010-07-29	985	2.03	57
2010-08-01	10,395	2.19	598
2010-08-03	1,348	2.09	78
2010-08-04	1,625	2.03	93
2010-08-12	165	3.00	9
2010-08-12	40,007	3.00	2,300
2010-08-18	1,994	2.01	115
2010-08-23	170	2.01	10
2010-08-24	2,321	2.02	133
2010-09-11	662	2.00	38
2010-09-16	76,071	5.00	4,374
2010-09-17	88,971	5.00	5,116
2010-09-20	445	2.00	26
2010-09-29	9,839	3.01	566
2010-10-06	4,767	2.00	274
2010-11-26	90,708	3.74	5,216
2010-12-08	85,058	2.83	4,891
2010-12-15	438	2.65	25
	<u>849,092</u>		

⁽¹⁾ Number of stock grants vested and expected to vest were 502,145

⁽²⁾ Contractual life indicates the sum of service (vesting) period.

The total intrinsic values of stock options and stock grants exercised for the years ended December 31, 2009 and 2010 were (Won)1,650 million and (Won)4,289 million respectively. The total amount of cash received from the exercise of share options for the years ended December 31, 2009 and 2010 was nil.

29. Fair Value Measurement

Effective January 1, 2008, the Company adopted ASC 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value of its financial instruments that are recognized or

disclosed at fair value in the financial statements on a recurring basis in accordance with ASC 820. The Company adopted the provisions of this statement on January 1, 2009 related to nonfinancial assets and nonfinancial liabilities that are not measured at fair value on a recurring basis.

The fair value hierarchy established in ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date.

The fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in measuring fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than those that are thinly traded or not quoted. In accordance with ASC 820, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability.

As a result of the adoption of ASC 820, the Company has made some amendments to the techniques used in measuring the fair value of derivatives and other positions. These amendments change the way that the probability of default of a counterparty is factored into the valuation of derivative positions and include the impact of the Company's own credit risk on derivatives and other liabilities measured at fair value.

In accordance with ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. When market prices are available, the Company uses quoted market prices to measure fair value. If market prices are not available, fair value measurements are based upon models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. Most of financial instruments use either of the foregoing methodologies, collectively Level 1 and Level 2 measurements, to determine fair value recorded in the Company's financial statements. However, in circumstances where market prices are limited or unavailable, valuations may require significant management judgments or adjustments that utilize significant unobservable inputs, to determine fair value. In these cases, the financial instruments are classified as Level 3.

The following are descriptions of valuation methodologies used by the Company to measure various financial instruments at fair value.

Trading and available-for-sale securities and securities sold short, not yet purchased: The fair values of the securities included in trading assets and available-for-sale securities included in investments and securities in short position included in trading liabilities are recognized in the consolidated balance sheets based on quoted market prices, where available. For the securities traded in the over-the-counter market, the Company generally determines fair value utilizing internal valuation techniques or based on prices obtained from independent pricing services or brokers. Trading securities and available-for-sale securities recorded by using valuation methods and prices obtained from pricing services or brokers are generally classified as Level 2, except in cases where such quoted prices include unobservable inputs (i.e., estimates of cash flows, correlations among factors, recovery rates etc.) to the models, in which case such financial instruments are classified as Level 3. Some of these instruments are valued using a discounted cash flow model, which estimates the fair value of the securities using the aforementioned inputs. The Company validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing by the Company's personnel familiar with market liquidity and other market-related conditions. The Company has internal price verification procedures and reviews fair value methodology documentation provided by independent pricing services.

Other investments in venture capital activities: Other investments include venture capital securities. The Company carries venture capital investments traded publically at fair value based on quoted market prices. If significant inputs such as estimates of cash flows, yield curves and credit spreads to the fair value measurement for these securities are unobservable in the market due to limited activity, those securities are classified as Level 3.

Derivatives assets and liabilities: The majority of derivatives entered into by the Company are traded in over-the-counter markets and no quoted market prices exist for such instruments. The fair values of those derivatives are determined using internal valuation models that require the use of multiple market inputs including interest rate, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. The Company uses models that are widely accepted in the financial services industry. The derivatives are placed as either Level 2 or Level 3 depending on the observability of significant inputs to the applicable model. Most of forwards, swaps and options are valued using internally developed models that use as their basis readily observable market parameters. However, some of the forwards, swaps and options are valued using unobservable inputs such as correlations and historical volatilities. Futures are exchange-traded derivatives classified as Level 1. Credit default swaps are valued based on models with significant unobservable market parameters and are normally traded less actively, and are classified as Level 3.

Valuation Adjustments

Counterparty credit risk adjustments are applied to derivative assets, such as over-the-counter derivative instruments, when the market inputs used in the valuation model may not be indicative of the creditworthiness of the counterparty. Few of the Company's derivatives are listed on an exchange. The majority of derivative positions are valued using internally developed models that use as their basis observable market inputs. Therefore, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment is based on market-based measures of credit risk to the extent available. The adjustment also takes into account contractual factors designed to reduce the Company's credit exposure to each counterparty.

Debt valuation adjustments are applied to reflect the Company's own credit risk when measuring derivative liabilities at fair value in accordance with the requirements of ASC 820. The methodology to determine the adjustment is consistent with the counterparty credit risk adjustment and incorporates the Company's credit spread as observed through the credit default swap market.

Items measured at fair value on a recurring basis

As of December 31, 2009, 10.46% and 1.89% of the Company's total assets and total liabilities, respectively, represented instruments measured at fair value on a recurring basis. The following table presents assets and liabilities measured at fair value on a recurring basis by fair-value hierarchy levels as of December 31, 2009.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In millions of Korean won)			
Assets measured at fair value				
Trading assets				
Trading securities	2,284,545	2,175,697	—	4,460,242
Foreign exchange spot contracts	—	2,878	—	2,878
Derivatives	79	3,177,419	80,937	3,258,435
Investments				
Available-for-sale securities	9,954,399	8,649,829	106,564	18,710,792
Debt securities	8,926,968	8,648,320	877	17,576,165
Korea treasury and government agencies	6,243,284	1,648,318	—	7,891,602
Corporate	—	1,281,470	47	1,281,517
Financial institutions	2,683,684	3,721,079	—	6,404,763
Asset-backed securities	—	1,997,453	830	1,998,283
Equity securities	1,027,431	1,509	105,687	1,134,627
Other investments	2,767	—	76,461	79,228
Other assets-hedging derivatives	—	47,787	283	48,070
Liabilities measured at fair value				
Trading liabilities				
Securities sold short, not yet purchased	1,347,668	—	—	1,347,668
Foreign exchange spot contracts	—	2,812	—	2,812
Derivatives	398	2,588,027	307,199	2,895,624
Other liabilities-hedging derivatives	—	173,013	36,916	209,929

As of December 31, 2010, 9.89% and 1.49% of the Company's total assets and total liabilities, respectively, represented instruments measured at fair value on a recurring basis. The following table presents assets and liabilities measured at fair value on a recurring basis by fair-value hierarchy levels as of December 31, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In millions of Korean won)			
Assets measured at fair value				
Trading assets				
Trading securities	1,736,619	1,958,500	—	3,695,119
Debt securities	1,624,085	1,894,821	—	3,518,906
Korea treasury and government agencies	692,727	217,924	—	910,651
Corporate	—	151,091	—	151,091
Financial institutions	931,358	1,354,094	—	2,285,452
Asset-backed securities	—	171,712	—	171,712
Equity securities	112,534	63,679	—	176,213
Foreign exchange spot contracts	—	1,415	—	1,415
Derivatives	809	2,354,893	32,577	2,388,279
Foreign exchange derivatives	—	1,743,012	4,617	1,747,629
Interest rate derivatives	—	586,694	9,310	596,004
Equity derivatives	809	25,187	12,953	38,949
Credit derivatives	—	—	1,954	1,954
Others	—	—	3,743	3,743
Investments				
Available-for-sale securities	9,466,515	8,748,394	421,352	18,636,261
Debt securities	8,561,574	8,747,546	—	17,309,120
Korea treasury and government agencies	6,304,090	1,909,127	—	8,213,217
Corporate	—	1,285,033	—	1,285,033
Financial institutions	2,257,484	3,742,748	—	6,000,232
Asset-backed securities	—	1,810,638	—	1,810,638
Equity securities	904,941	848	421,352	1,327,141
Other investment	1,809	—	77,647	79,456
Other assets-hedging derivatives	—	103,308	5,636	108,944
Liabilities measured at fair value				
Trading liabilities				
Securities sold short, not yet purchased	1,279,869	—	—	1,279,869
Foreign exchange spot contracts	—	1,839	—	1,839
Derivatives	7,576	1,880,493	99,674	1,987,743
Foreign exchange derivatives	—	1,110,304	—	1,110,304
Interest rate derivatives	—	721,931	10,494	732,425
Equity derivatives	7,576	48,258	85,667	141,501
Others	—	—	3,513	3,513
Other liabilities-hedging derivatives	—	192,933	24,958	217,891

Transfers between Level 1 and Level 2 of the Fair Value Hierarchy

Transfers between Level 1 and Level 2 are effective as of the beginning of the year. The Company did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2010.

Changes in Level 3 items measured at fair value on a recurring basis

In circumstances where market prices are limited or unavailable, valuations may require significant unobservable inputs to determine fair value. In these cases, the securities are classified as Level 3. Instruments

measured at fair value categorized as Level 3 represented 1.00 % and 7.72 % as of December 31, 2009 and 2.16% and 3.57% as of December 31, 2010 of the Company's total recurring assets and total recurring liabilities measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2009:

	December 31, 2008	Total realized/unrealized gains (losses) recorded in		Transfers into/out of Level 3 ⁽²⁾	Purchases, issuances and settlements	December 31, 2009	Unrealized gains (losses) still held ⁽³⁾
		Trading revenues	Others				
(In millions of Korean won)							
Available-for-sale securities	3,708	—	(46,299) ⁽¹⁾	—	149,155	106,564	(44,326)
Other investments	87,015	—	(4,529) ⁽¹⁾	(2,375)	(3,650)	76,461	(5,576)
Derivatives, net ⁽⁴⁾	(353,983)	24,204	—	(87,013)	153,897	(262,895)	80,851

⁽¹⁾ Includes the change in fair value of available-for-sale securities and other investments, change in accumulated other comprehensive income (loss), gains (losses) from sales and impairment losses.

⁽²⁾ Transfers into or out of Level 3 are made if the inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable, respectively. These transfers are effective as of the beginning of the year, and any gains or losses occurring on these assets and liabilities during the year are presented as Level 3.

⁽³⁾ Represents the amount of total gains or losses for the year ended December 31, 2009, included in earnings (and accumulated other comprehensive income (loss) for changes in fair value of available-for-sale investments and other investments) attributable to the change in fair value relating to assets and liabilities classified as Level 3 are still held at December 31, 2009.

⁽⁴⁾ Net derivatives liabilities at December 31, 2009 and 2008 include derivative assets, hedging derivative assets, derivative liabilities and hedging derivative liabilities. Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

The significant changes in Level 3 assets and liabilities for the year ended December 31, 2009 are as follows:

A net decrease in available-for-sale securities of (Won)2,831 million was mainly driven by recognition of other-than-temporary impairment of CDOs which are included in earnings and disposals.

The changes in the Level 3 net derivative liabilities of (Won)91,088 million were primarily due to:

- (i) The Company transferred (Won)87,013 million of net derivatives assets from the Level 3 into the Level 2 category in the fair-value hierarchy during the year ended December 31, 2009. The valuation of these derivatives is affected by the credit valuation adjustments, which is based on an internal valuation technique, and the extent of such adjustment was originally determined to be significant enough to render the fair-value hierarchy into the lower level.
- (ii) The Company recognized realized and unrealized gains of (Won)24,204 million, relating to derivative assets and liabilities, which were included in trading revenues for the year ended December 31, 2009.

The increase in Level 3 investment of (Won)92,302 million was mainly due to the net loss of (Won)50,828 million which was recorded in current earnings, an increase of (Won)145,505 million from net purchases, issuances and settlements, and a (Won)2,375 million of transfer of an investment from Level 3 to Level 1 as the issuer of the securities became a publicly traded company.

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2010:

	December 31, 2009	Total realized/unrealized gains (losses) recorded in		Transfers into/ out of Level 3 ⁽²⁾	Purchases, issuances and settlements	December 31, 2010	Unrealized gains (losses) still held ⁽³⁾
		Trading revenues	Others ⁽¹⁾				
(In millions of Korean won)							
Available-for-sale securities							
Corporate	47	—	(47)	—	—	—	—
Asset-backed securities	830	—	1,879	—	(2,709)	—	—
Equity securities	105,687	—	282,123	—	33,542	421,352	237,749
Other investments	76,461	3,063	—	(1,182)	(695)	77,647	(1,748)
Derivatives, net ⁽⁴⁾	(262,895)	98,208	—	(3,206)	81,474	(86,419)	(7,842)
Foreign exchange derivatives	2,652	3,340	—	(294)	(1,081)	4,617	2,259
Interest rate derivatives	(23,294)	15,450	—	(2,912)	15,208	4,452	(21,794)
Equity derivatives	(206,451)	66,390	—	—	67,347	(72,714)	(1,335)
Credit derivatives	2,118	(164)	—	—	—	1,954	(164)
Others	(37,920)	13,192	—	—	—	(24,728)	13,192

- (1) Includes the change in fair value of available-for-sale securities and other investments, change in accumulated other comprehensive income (loss), gains (losses) from sales and impairment losses.
- (2) Transfers into or out of Level 3 are made if the inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable, respectively. These transfers are effective as of the beginning of the year, and any gains or losses occurring on these assets and liabilities during the year are presented as Level 3.
- (3) Represents the amount of total gains or losses for the year ended December 31, 2010, included in earnings (and accumulated other comprehensive income (loss) for changes in fair value of available-for-sale investments and other investments) attributable to the change in fair value relating to assets and liabilities classified as Level 3 are still held at December 31, 2010.
- (4) Net derivatives liabilities at December 31, 2010 and 2009 include derivative assets, hedging derivative assets, derivative liabilities and hedging derivative liabilities. Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

The significant changes in Level 3 assets and liabilities for the year ended December 31, 2010 are as follows:

The changes in the Level 3 net derivative liabilities of (Won)176,476 million were primarily due to:

- (i) The Company transferred (Won)3,206 million of net derivatives assets from the Level 3 into the Level 2 category in the fair-value hierarchy during the year ended December 31, 2010. The valuation of these derivatives is affected by the credit valuation adjustments, which is based on an internal valuation technique, and the extent of such adjustment was originally determined to be significant enough to render the fair-value hierarchy into the lower level.
- (ii) The Company recognized realized and unrealized gains of (Won)98,208 million, relating to derivative assets and liabilities, which were included in trading revenues for the year ended December 31, 2010.

The increase in Level 3 investment of (Won)315,974 million was mainly due to the net gain of (Won)287,018 million which was recorded in current earnings, an increase of (Won)30,138 million from net purchases, issuances and settlements, and a (Won) 1,182 million of transfer of an investment from Level 3 to Level 1 as the issuer of the securities became a publicly traded company.

Items measured at fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a non-recurring basis and are not included in the tables above. These assets and liabilities primarily include assets measured at cost that have been written down to fair value during the period as a result of an impairment.

The following table presents only balances measured at fair value during the period and still held by level within the ASC 820 fair-value hierarchy as of December 31, 2009, for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2009.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>(In millions of Korean won)</u>		
Investments	—	—	1,515
Loans ⁽¹⁾	—	—	638,165
Premises and equipment	—	3,576	—

⁽¹⁾ Represents carrying values net of allowances and cumulative impairment charges of related impaired loans which are collateral dependent and are evaluated based on the fair value of the underlying collateral. The fair value of the collateral for such impaired loans is based on the appraisal value of external valuation experts, as adjusted for significant inputs related to the foreclosure proceeding for such collateral, which inputs are deemed to be unobservable. The Company accordingly classified collateral dependent loans as Level 3.

The following table presents only balances measured at fair value during the period and still held by level within the ASC 820 fair-value hierarchy as of December 31, 2010, for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>(In millions of Korean won)</u>		
Investments	—	—	459,995
Asset-backed securities	—	—	435
Other Investments	—	—	459,560
Loans ⁽¹⁾	—	—	923,722
Premises and equipment	—	1,817	—

⁽¹⁾ Represents carrying values net of allowances and cumulative impairment charges of related impaired loans which are collateral dependent and are evaluated based on the fair value of the underlying collateral. The fair value of the collateral for such impaired loans is based on the appraisal value of external valuation experts, as adjusted for significant inputs related to the foreclosure proceeding for such collateral, which inputs are deemed to be unobservable. The Company accordingly classified collateral dependent loans as Level 3.

Fair Value Disclosure

ASC 825-10-50, requires the disclosure of the estimated fair value of financial instruments, for which it is practicable to estimate fair value with certain financial instruments excluded. The following disclosure of the estimated fair value of financial instruments and the methods and assumptions used by the Company, by type of financial instrument, in estimating fair value, except for trading assets and trading liabilities disclosed above pursuant to ASC 820, is made by the Company in accordance with ASC 820. In estimating fair values, different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

Assets and liabilities for which fair value approximates carrying value: The carrying values of certain financial assets and liabilities are reported at cost, including cash and cash equivalents, restricted cash, call loans, securities purchased under resale agreements, due from customers on acceptances, accrued interest and dividends

receivable, accrued interest payable, security deposits, loan held-for-sale, noninterest-bearing deposits, call money and acceptances outstanding. The carrying values of these financial assets and liabilities are considered to approximate their fair values due to their short-term nature and negligible credit losses.

Interest-bearing deposits in other banks: The fair values of fixed interest-bearing deposits are estimated by discounting cash flows based on current rates for similar types of deposits. The fair values of variable rate interest-bearing deposits are considered to approximate their carrying values.

Held-to-maturity securities: Fair values of held-to-maturity securities are based on market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, discounted cash flows, counterparty quotes or external valuations performed by qualified independent evaluators.

Other investments: Other investments include venture capital securities, non-marketable or restricted equity securities and equity method investments, which are included in “Investments” in the Company’s consolidated balance sheets. The carrying values of the non-marketable equity securities and equity method investments approximate fair value.

Loans receivable: Loans receivable are reported net of specific and general provisions for impairment. The fair value of fixed rate loans is estimated by discounting contractual cash flows based on current rates at which similar loans would be made to borrowers for the same maturities. The fair values of variable rate loans that reprice frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheets.

Interest-bearing deposits: The fair values of variable rate interest bearing deposits approximate their carrying values in the consolidated balance sheets. Fair values for fixed-rate interest bearing deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits with similar maturities.

Other borrowed funds: The aggregate fair value for other borrowed fund is based on quoted market prices, where available. For other borrowed fund where quoted market prices are not available, a discounted cash flow model is used based on the current rates for debt with similar maturities.

Secured borrowings: The fair values for securities sold under agreements to repurchase are estimated using discounted cash flow calculation that applies interests currently being offered for securities sold under agreements to repurchase with similar maturities. The fair values for beneficial interests issued by the SPEs are estimated using quoted market price.

Long-term debt: The aggregate fair value for long-term debt is based on quoted market prices, where available. For long-term debt where quoted market prices are not available, a discounted cash flow model is used based on the current rates for the Company’s debt with similar maturities.

Off-balance sheet instruments: Fair value for off-balance-sheet instruments are based on an estimate of the difference between fees currently charged to enter into similar agreements and fees paid to reduce or eliminate exposure to those agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing.

The estimated fair values of the Company's financial instruments as of December 31, 2009 and 2010 were as follows:

	2009		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
(In millions of Korean won)				
Financial assets:				
Cash and cash equivalents	2,695,569	2,695,569	3,867,316	3,867,316
Restricted cash	6,050,241	6,050,241	3,359,465	3,359,465
Interest-bearing deposits in other banks	466,890	466,890	987,408	987,408
Call loans and securities purchased under resale agreements	2,036,142	2,036,142	2,849,529	2,849,529
Investments	33,245,391	34,020,413	33,911,415	34,767,315
Loans, net	193,454,326	192,767,714	192,947,019	193,137,284
Due from customers on acceptance	1,895,444	1,895,444	1,878,190	1,878,190
Accrued interest and dividends receivable	1,029,257	1,029,257	956,746	956,746
Security deposits	1,405,638	1,405,638	1,401,469	1,401,469
Other assets-loans held for sale	201,275	201,275	73,460	73,460
Other assets- off-balance sheet instruments	29,808	29,808	19,275	19,275
Financial liabilities:				
Interest-bearing deposits	166,078,921	166,113,912	176,846,197	176,840,307
Non-interest-bearing deposits	3,104,147	3,104,147	3,081,938	3,081,938
Call money	1,364,516	1,364,516	605,398	605,398
Acceptances outstanding	1,895,444	1,895,444	1,878,190	1,878,190
Accrued interest payable	3,819,342	3,819,342	3,703,325	3,703,325
Other borrowed funds	8,176,286	8,175,635	8,775,200	8,775,784
Secured borrowings	4,669,728	4,883,609	2,651,069	2,829,896
Long-term debt	39,569,909	40,441,451	30,080,132	31,307,786
Other liabilities-off-balance sheet instruments	29,808	29,808	19,275	19,275

30. Derivative Instruments and Hedging Activities

The Company applied fair value hedge accounting for derivative transactions which qualified for hedge accounting. Fair values of derivatives not qualifying for hedge accounting are reflected in "Trading assets" or "Trading liabilities" and any changes in fair values related to these derivatives transactions are reflected in "Net Trading Revenue". The fair values of derivatives qualifying for hedge accounting are included in "Other assets" or "Other liabilities" and the earnings impact of these fair value hedges and the change in fair value attributable to the risk being hedged for the hedged item are included in "Other non-interest income" or "Other non-interest expenses."

Through December 31, 2006, the Company's hedge accounting was applied exclusively to those interest rate swap transactions that qualified for the short-cut method of hedge accounting. In 2007, in respect of new qualifying hedge relationships, the Company began using standard statistical methods of regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of the hedging relationships involving interest rate swaps (i.e., the Company applied the "long-haul" method of hedge accounting) while, at the same time, continuing to use the short-cut method for qualifying hedge relationships existing as of January 1, 2007.

In the normal course of business, the Company enters into derivatives and foreign exchange contracts to manage the risk exposures of its customers. The Company also uses derivative instruments in reducing risk exposures relating to fluctuations in its own trading accounts, and assets and liabilities in response to interest rate and foreign exchange risks.

The Company uses interest rate derivatives principally to manage exposure to fluctuations in fair value in response to interest rate risk. Pay-fixed receive-variable interest rate swaps are used to convert fixed rate assets, principally debt securities, into synthetic variable rate instruments. Receive-fixed pay-variable interest rate swaps are used to convert fixed rate funding sources, principally fixed rate debt, into synthetic variable rate funding instruments. Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Cross-currency swaps are used by the Company to convert asset and funding denominated from one currency into another currency.

Derivative instruments may expose the Company to market risk or credit risk in excess of the amounts recorded on the balance sheets. Market risk arises due to market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial instrument and/or an increase in its funding cost. Exposure to market risk is managed through position limits and other controls and by entering into hedging transactions. Credit risk is the possibility that loss may occur from counterparty failure to perform according to the terms of the contract and if the value of collateral held, if any, was not adequate to cover such losses. Credit risk is controlled through credit approvals, limits and monitoring procedures based on the same credit policies used for on-balance-sheet instruments. Generally, collateral or other security is not required. The amount of collateral obtained, if any, is based on the nature of the financial instrument and management's credit evaluation of each counterparty.

The following table presents the notional amounts of the Company's derivative instruments as of December 31, 2009.

	Hedging instruments under ASC 815	Other derivative instruments		Total
		Trading Derivatives (In millions of Korean won)	Management Hedges	
Foreign exchange spot contracts	—	2,451,179	—	2,451,179
Foreign exchange derivatives:				
Currency futures	—	1,552,324	—	1,552,324
Currency forwards	—	35,506,815	—	35,506,815
Currency swaps	1,167,600	18,800,976	—	19,968,576
Currency options purchased	—	1,479,661	—	1,479,661
Currency options sold	—	1,784,605	—	1,784,605
Interest rate derivatives:				
Interest rate futures	—	3,770,071	—	3,770,071
Interest rate swaps	2,363,590	90,068,589	—	92,432,179
Interest rate options purchased	—	4,700,000	—	4,700,000
Interest rate options sold	—	3,453,481	—	3,453,481
Equity derivatives:				
Stock futures	—	75,043	—	75,043
Stock options purchased	—	3,607,076	21,574	3,628,650
Stock options sold	—	1,892,687	21,574	1,914,261
Stock swaps	—	154,197	17,203	171,400
Credit derivatives:				
Protection sold	—	200,000	—	200,000
Commodity and other derivatives:				
Forwards	—	—	41,727	41,727
Others	190,000	121,851	60,000	371,851
Total derivative notials	3,721,190	169,618,555	162,078	173,501,823

The following table presents the notional amounts of the Company's derivative instruments as of December 31, 2010.

	Hedging instruments under ASC 815	Other derivative instruments		Total
		Trading Derivatives	Management Hedges	
		(In millions of Korean won)		
Foreign exchange spot contracts	—	1,300,882	—	1,300,882
Foreign exchange derivatives:				
Currency futures	—	609,989	—	609,989
Currency forwards	—	36,597,264	—	36,597,264
Currency swaps	1,138,900	16,870,518	—	18,009,418
Currency options purchased	—	481,461	—	481,461
Currency options sold	—	536,443	—	536,443
Interest rate derivatives:				
Interest rate futures	—	1,067,924	—	1,067,924
Interest rate swaps	2,015,597	97,030,813	—	99,046,410
Interest rate options purchased	—	5,970,000	—	5,970,000
Interest rate options sold	—	5,531,894	—	5,531,894
Equity derivatives:				
Stock futures	—	168,621	—	168,621
Stock options purchased	—	3,534,250	—	3,534,250
Stock options sold	—	1,321,709	—	1,321,709
Stock swaps	—	7,638	—	7,638
Credit derivatives:				
Protection sold	—	200,000	—	200,000
Commodity and other derivatives:				
Others	190,000	—	60,000	250,000
Total derivative notionals	<u>3,344,497</u>	<u>171,229,406</u>	<u>60,000</u>	<u>174,633,903</u>

The following table presents the derivative assets and liabilities included in the Company's consolidated balance sheets as December 31, 2009.

	Derivatives assets			Derivatives liabilities		
	Trading derivatives	Qualifying Accounting Hedge	Total	Trading derivatives	Qualifying Accounting Hedge	Total
			(In millions of Korean won)			
Foreign exchange spot contracts	2,878	—	2,878	2,812	—	2,812
Foreign exchange derivatives	2,592,510	—	2,592,510	1,751,492	166,817	1,918,309
Interest rate derivatives	573,309	48,070	621,379	814,637	8,692	823,329
Equity derivatives	86,267	—	86,267	321,803	—	321,803
Credit derivatives	2,118	—	2,118	—	—	—
Commodity derivatives	2,410	—	2,410	2,386	—	2,386
Other derivatives	1,821	—	1,821	5,306	34,420	39,726
Total derivatives assets/liabilities	<u>3,261,313</u>	<u>48,070</u>	<u>3,309,383</u>	<u>2,898,436</u>	<u>209,929</u>	<u>3,108,365</u>

The following table presents the derivative assets and liabilities included in the Company's consolidated balance sheets as December 31, 2010.

	Derivatives assets			Derivatives liabilities		
	Trading derivatives	Qualifying Accounting Hedge	Total	Trading derivatives	Qualifying Accounting Hedge	Total
	(In millions of Korean won)					
Foreign exchange spot contracts	1,415	—	1,415	1,839	—	1,839
Foreign exchange derivatives	1,747,629	—	1,747,629	1,110,304	192,933	1,303,237
Interest rate derivatives	596,004	108,944	704,948	732,425	—	732,425
Equity derivatives	38,949	—	38,949	141,501	—	141,501
Credit derivatives	1,954	—	1,954	—	—	—
Other derivatives	3,743	—	3,743	3,513	24,958	28,471
Total derivatives assets/liabilities	<u>2,389,694</u>	<u>108,944</u>	<u>2,498,638</u>	<u>1,989,582</u>	<u>217,891</u>	<u>2,207,473</u>

The following table presents the trading gains (losses) in the Company's consolidated income statements for the year ended December 31, 2009.

	Trading gains (losses) ⁽¹⁾ (In millions of Korean won)
Foreign exchange spot contracts	98,101
Foreign exchange derivatives	269,934
Interest rate derivatives	(206,435)
Equity derivatives	6,738
Credit derivatives	16,000
Commodity derivatives	(490)
Other derivatives	(2,930)
Total	<u>180,918</u>

⁽¹⁾ Amounts are recorded in net trading revenue.

The following table presents the trading gains (losses) in the Company's consolidated income statements for the year ended December 31, 2010.

	Trading gains (losses) ⁽¹⁾ (In millions of Korean won)
Foreign exchange spot contracts	(368,713)
Foreign exchange derivatives	692,478
Interest rate derivatives	(29,744)
Equity derivatives	89,096
Credit derivatives	1,869
Commodity derivatives	(61)
Other derivatives	4,636
Total	<u>389,561</u>

⁽¹⁾ Amounts are recorded in net trading revenue.

The following table presents certain information related to the Company's derivatives designated as fair value hedges for the years ended December 31, 2009 and 2010.

	2009			2010		
	<u>Derivatives</u> ⁽¹⁾	<u>Hedged Items</u> ⁽¹⁾	<u>Hedge ineffectiveness</u> (In millions of Korean won)	<u>Derivatives</u> ⁽¹⁾	<u>Hedged items</u> ⁽¹⁾	<u>Hedge ineffectiveness</u>
Foreign exchange derivatives	(165,271)	106,655	(58,616)	(25,764)	27,816	2,052
Interest rate derivatives	(62,411)	68,813	6,402	69,005	(60,923)	8,082
Other derivatives	(33,203)	39,497	6,294	8,088	(8,309)	(221)
Total	<u>(260,885)</u>	<u>214,965</u>	<u>(45,920)</u>	<u>51,329</u>	<u>(41,416)</u>	<u>9,913</u>

⁽¹⁾ Amounts are recorded in other non-interest income (expense).

Credit Derivatives

The Company enters into credit derivatives primarily to facilitate client transactions. Credit derivatives derive value based on an underlying third party-referenced obligation and generally require the Company as the seller of credit protection to make payments to a buyer upon the occurrence of predefined credit events. Such credit events generally include bankruptcy of the referenced entity, debt restructuring and failure to pay under the obligation, as well as acceleration of indebtedness and payment repudiation or moratorium. For credit derivatives based on a portfolio of referenced credits or credit indices, the Company may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount. As of December 31, 2010, all credit derivatives include only credit default swaps ("CDS"), in which the Company is the protection seller. Based on the credit quality of the underlying reference entities, all investments have been classified as investment grade and their expiration at December 31, 2010 and 2009 are summarized as follows.

2009

	<u>Maximum Payout/ Notional</u>	<u>(In millions of Korean won)</u>		<u>Fair value liability</u>
		<u>Less than 1 year</u>	<u>1 to 3 years</u>	
Credit default swaps ⁽¹⁾	200,000	—	2,118	2,118

2010

	<u>Maximum Payout/ Notional</u>	<u>(In millions of Korean won)</u>		<u>Fair value asset</u>
		<u>Less than 1 year</u>	<u>1 to 3 years</u>	
Credit default swaps ⁽¹⁾	200,000	1,954	—	1,954

⁽¹⁾ The Company considers ratings of BBB- or higher to meet the definition of investment grade.

The maximum potential amount of future payments under CDS contracts presented in the table above is based on the notional value of the derivatives. The Company believes that the maximum potential amount of future payments for credit protection sold is not representative of the actual loss exposure based on historical experience. This maximum potential amount has not been reduced by the Company's rights to the underlying assets and the related cash flows. In accordance with most CDS contracts, should a credit event (or settlement trigger) occur, the Company is usually liable for the difference between the protection sold and the recourse it holds in the value of the underlying assets. Thus, if the reference entity defaults, the Company will generally have a right to collect on the underlying reference credit and any related cash flows, while being liable for the full notional amount of credit protection sold to the buyer.

As of December 31, 2009 and December 31, 2010, the Company has not purchased protection against the credit protection sold to offset derivative contract positions.

Credit-Risk-Related Contingent Features in Derivatives

Certain derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, are primarily downgrades in the credit ratings of the Company and its affiliates. The fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of December 31, 2009 and December 31, 2010 is (Won)1,590,026 million and (Won)1,281,782 million, respectively. The Company has posted (Won)257,852 million and (Won)63,703 million as collateral for this exposure in the normal course of business as of December 31, 2009 and December 31, 2010. Each downgrade would trigger additional collateral requirements for the Company and its affiliates. In the event that each legal entity was downgraded a single notch as of December 31, 2009 and December 31, 2010, the Company would be required to post additional collateral of (Won)173,559 million and (Won)150,379 million, respectively.

Counterparty Credit Risk

By using derivatives, the Company is exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform its obligation, the Company's counterparty credit risk is equal to the amount of derivative assets balance net of derivative liabilities and the related collateral, with the same counterparty subject to master netting arrangements under the guidance covering the offsetting of amounts related to certain contracts. As of December 31, 2009, the Company's exposure to counterparty credit risk amounted to (Won)1,453,925 million, which is composed of (Won)93,797 million related to foreign financial institutions, (Won)5,990 million related to foreign non-financial institutions, (Won)47,628 million related to domestic financial institutions and (Won)1,306,510 million related to domestic non-financial institutions. As of December 31, 2010, the Company's exposure to counterparty credit risk amounted to (Won)835,094 million, which is composed of (Won)76,055 million related to foreign financial institutions, (Won)8,377 million related to foreign non-financial institutions, (Won)58,225 million related to domestic financial institutions and (Won)692,437 million related to domestic non-financial institutions. The amount of collateral netted against derivative assets was (Won)76,690 million and (Won)11,188 million, as of December 31, 2009 and December 31, 2010, respectively. The Company minimizes counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate.

31. Commitments and Contingencies

Legal proceedings

The Company is a party to certain legal actions arising in the normal course of its operations. Other than the legal proceedings discussed below, management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Company's financial position, liquidity or results of operations.

In accordance with applicable accounting guidance, the Corporation establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. If, at the time of evaluation, the loss contingency related to a litigation or regulatory matter is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. Once the loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, the Corporation will establish an accrued liability and continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

The Consolidated Company has filed 125 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of (Won)763,919 million and faces 274 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of (Won)1,428,504 million, which arose in the normal course of the business and are still pending as of December 31, 2010. Included in the amount of aggregate combined damages, the Company has recorded (Won)6,936 million as accrued liabilities related to litigation or regulatory matters which are deemed to be both probable and estimable.

- a) In August 2006, the government filed a lawsuit seeking the return of (Won)321 billion of excessive fees relating to the lottery operations against the Company, Ernst & Young Han Young, Korea Lottery Service Inc. and the Company's and their relevant employees. (Won)321 billion is the total amount of the claim against the Company, Ernst & Young Han Young, Korea Lottery Service Inc. and the Company's and their relevant employee, and the Company can not estimate the amount out of (Won)321 billion which may result in only the Company's damage. In April 2009, the Seoul Central District Court dismissed the government's claim. In May 2009, the government appealed the case to the Seoul High Court, which dismissed the appeal in September 2010. In October 2010, the government appealed the case to the Supreme Court of Korea, where it is currently pending.

In April 2004, the Lottery Commission of the Korean government revised the fee rate for fees payable to Korea Lottery Service Inc. by reducing it from 9.523% to 3.144%. Korea Lottery Service Inc. filed a lawsuit with the Seoul Central District Court claiming that such reduction by the Lottery Commission was invalid and demanding the payment of approximately (Won)20 billion of unpaid fees by the Company, which is the difference between the fees payable by the Company under the previous rate and the revised rate in respect of fees incurred in May 2004. In December 2006, the Seoul Central District Court ruled in favor of Korea Lottery Service Inc., and the Company appealed to the Seoul High Court in January 2007. In May 2008, the Seoul High Court ruled in favor of Korea Lottery Service Inc. in part but reduced the amount of damages to (Won)4.5 billion. In June 2008, both the Company and Korea Lottery Service Inc. appealed the case to the Supreme Court of Korea, where it is currently pending.

In addition, in January 2007, Korea Lottery Service Inc. filed another lawsuit with the Seoul Central District Court seeking payment of unpaid fees in the aggregate amount of (Won)446 billion, which is the difference between the fees payable by the Company under the previous rate and the revised rate, for fees incurred from June 2004 to December 2006. In July 2008, the Seoul Central District Court ruled in favor of the Company in part and reduced the amount of damages to (Won)123 billion. In August 2008, both the Company and Korea Lottery Service Inc. appealed the case to the Seoul High Court, where it is currently pending.

Furthermore, in June 2008, Korea Lottery Service Inc. filed another lawsuit with the Seoul Central District Court seeking payment of unpaid fees in the aggregate amount of (Won)134 billion, which is the difference between the fees payable by the Company under the previous rate and the revised rate, for fees incurred from January 2007 to December 1, 2007. The case is currently pending.

- b) In May 2006 the Korea Fair Trade Commission commenced an investigation into whether various domestic banks (including the Company) engaged in collusive or anti-competitive activity in connection with various commission fees. As a result of such investigation, in March 2008, the Korea Fair Trade Commission ordered the Company to stop alleged price-fixing practices in charging certain new fees in connection with export bills of exchange and banker's usance letters of credit and to pay administrative fines in the amount of (Won)257 million and (Won)439 million, respectively, for such activities. In June 2008, the Company appealed the Korea Fair Trade Commission's decisions to the Seoul High Court. In February 2009, the Seoul High Court ruled in favor of the Korea Fair Trade Commission with respect to the Company's alleged price-fixing practices in charging certain new fees in connection with banker's usance letters of credit. In April 2009, the Seoul High Court ruled in favor of the Korea Fair Trade Commission with respect to the Company's alleged price-fixing practices in charging certain new fees in connection with export bills of exchange. The Company has appealed both cases to the Supreme Court of Korea, where they are currently pending.

Furthermore, in April 2008, the Korea Fair Trade Commission ordered the Company to stop alleged price-fixing practices in connection with direct deposit fees, and to pay administrative fines in the amount of (Won)537 million for such activities. In July 2008, the Company appealed the Korea Fair Trade Commission's decision to the Seoul High Court, which dismissed the Company's appeal in May 2009. In June 2009, the Company appealed this case to the Supreme Court of Korea, where it is currently pending.

- c) During the first half of 2007, the National Tax Service of Korea completed a tax audit in respect of the Company for the fiscal years 2002, 2003, 2004 and 2005, as a result of which the Company was assessed (Won)190 billion (including residence tax) for tax deficiencies. In addition, during the second half of 2007, the National Tax Service of Korea assessed additional income taxes for prior years amounting to (Won)292 billion (including residence tax) for tax deficiencies. The Company paid the entire amount of such additional assessments in 2007, but filed an appeal with the National Tax Tribunal with respect to tax assessments made in 2007 amounting to (Won)482 billion (including residence tax) which dismissed the appeal in March 2010. In June 2010, the Company filed an appeal with Seoul Administrative Court, which ruled in favor of the Company on April 1, 2011. On April 19, 2011, the National Tax Service of Korea appealed this case to the Seoul High Court, where it is currently pending. We have been assessed additional income taxes in respect of prior years as a result of a tax audit by the National Tax Service of Korea, and our appeal with respect to a portion of such assessment may not be successful.
- d) Since November 2008, certain customers of the Company have filed lawsuits against it in connection with its sales of foreign currency derivatives products known as "KIKO" (which stands for "knock-in knock-out"), which are intended to operate as hedging instruments against fluctuations in the exchange rate between the Won and the U.S. dollar. Due to the significant depreciation of the Won against the U.S. dollar in 2008 and 2009, customers who have purchased KIKO products from the Company are required to make large payments to it. Six companies have filed lawsuits against the Company alleging that the contracts under which the relevant KIKO products were sold should be invalidated and that the Company should return payments received there under. Three of the lawsuits were dismissed and not appealed. The aggregate amount of three remaining claims, as of March 31, 2011, was approximately (Won)12 billion and may increase in the event of future depreciation of the Won against U.S. dollar. Additional lawsuits, as well as motions for preliminary injunctions, may be filed against the Company with respect to KIKO products, and the final outcome of such litigation remains uncertain.
- e) Since November 2008, a number of the Company's customers have filed 11 lawsuits against it in connection with its sales of offshore funds and currency future contracts. The customers alleged that the losses were caused by the Company's negligence in inadequately explaining the risks of such investment to its customers and in structuring funds with inappropriate currency future hedging features. Five of the lawsuits in which the plaintiffs claimed damages of (Won)557 million in aggregate were dismissed and not appealed. One of the lawsuits in which the plaintiffs claimed damages of (Won)154 million was dismissed by the Seoul Central District Court in July 2009 and the plaintiffs initially appealed to the Seoul High Court but subsequently withdrew the appeal. One of the lawsuits in which the plaintiffs claimed damages of (Won)221 million in aggregate was dismissed by the Seoul Central District Court in July 2009 and the plaintiffs appealed to the Seoul High Court in August 2009. In July 2010, the Seoul High Court ruled in favor of the plaintiffs in part but reduced the amount of damages to (Won)44 million. Three of the lawsuits in which the plaintiffs claimed damages of (Won)5,581 million in aggregate were dismissed by the Seoul Central District Court in the second half of 2010 and the plaintiffs appealed to the Seoul High Court, where they are currently pending. One of the lawsuits in which the plaintiffs claimed damages of (Won)199 million is pending at the Seoul Central District Court. Additional lawsuits may be filed against the Company with respect to its sales of such products, and the final outcome of such litigation remains uncertain.
- f) In August 2009, six purchasers that had entered into shipbuilding contracts with a Korean shipbuilding company filed a lawsuit in the United Kingdom against the Company demanding repayment of US\$46.6 million of pre-delivery installments paid by the purchasers to the shipbuilding company under such contracts. In connection with such contracts, in August 2007, the Company had issued to each of the six purchasers advance payment bonds, which effectively operate as refund guarantees on behalf of the

shipbuilding company to cover its obligations to return pre-delivery installments paid by such purchasers in the event of, among other things, defaults by such shipbuilding company under the shipbuilding contracts. In January 2009, the shipbuilding company became subject to a debt workout procedure under the Corporate Restructuring Promotion Act. The six purchasers claimed that such an event constituted a default under each of the shipbuilding contracts and demanded repayment under the terms of the advance payment bonds of the installments paid to the shipbuilding company. In October 2009, the High Court of Justice, Queen's Bench Division, Commercial Court ruled in favor of the six purchasers. The Company appealed to the Court of Appeal, Queen's Bench Division, Commercial Court, which overturned the lower court's ruling in May 2010. The six purchasers appealed to the Supreme Court of the United Kingdom, where the case is currently pending.

- g) In July 2010, the Korean government filed four lawsuits against the Company in connection with its management of the National Housing Fund, claiming damages of (Won)120 billion in aggregate. The government alleged that certain loan losses incurred by the National Housing Fund were due to the Company's breach of its duty of care as a manager of the National Housing Fund. The four lawsuits are currently pending at the Seoul Central District Court.

Lease commitments

The Company entered into capital leases in 2009, while all leases entered into by the Company as lessee were operating leases until 2008. Total rental expenses for the years ended December 31, 2008, 2009 and 2010 were (Won)173,297 million, (Won) 183,716 million and (Won)228,714 million, respectively. Pursuant to the terms of lease agreements pertaining to premises and equipment in effect at December 31, 2010, future minimum rental payments under non-cancelable operating and capital lease terms are as follows:

	<u>Operating Lease</u>	<u>Capital Lease</u>
	(In millions of Korean won)	
2011	115,812	183
2012	59,117	154
2013	22,424	210
2014	10,783	277
2015	6,031	—
Thereafter	2,000	—
Total	<u>216,167</u>	<u>824</u>

In lieu of rent, certain lease agreements require the Company to advance a non-interest bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate and is recorded as a security deposit in the consolidated balance sheets.

Credit-related commitments

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, which represent irrevocable assurances that the Company will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees are considerably less than those under commitments because the Company does not generally expect the third party to draw funds under the agreement.

Commercial letters of credit, which are written undertakings by the Company on behalf of a customer authorizing a third party to draw drafts on the Company up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk than a loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments.

For credit related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contracts. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Company's actual future credit exposure or liquidity requirements for these commitments.

As of December 31, 2009 and 2010, the financial instruments whose contract amounts represent credit risk to the Company were as follows:

	<u>Contract amount</u>	
	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Guarantees	6,225,712	5,445,132
Commercial letters of credit ⁽¹⁾	8,350,739	6,820,424
Unused lines of credit:		
Commercial	28,560,694	28,485,828
Consumer	13,263,808	10,844,177
Credit cards	41,784,795	43,232,049

⁽¹⁾ The above contains advance payment refund guarantees and others which amount to (Won)2,678,712 million and (Won)2,089,411 million as of December 31, 2009 and 2010, respectively.

Fund contribution commitments

On December 17, 2008, the Company committed to contribute (Won)1,043,826 million to the Bond Market Stabilization Fund aimed at stabilizing the local debt market. As of December 31, 2010, the Company's total contribution amounted to (Won)521,913 million.

Bad bank contribution commitment

On October 17, 2009, the Company committed to contribute (Won)175,000 million to the UAMCO. As of December 31, 2010, the Company's total contribution amounted to (Won)89,950 million.

Pledged assets

The primary components of assets pledged as collateral for borrowings and other purposes as of December 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Trading securities	1,309,212	1,464,778
Available-for-sale securities	1,189,954	896,521
Held-to-maturity securities	6,977,474	5,721,316
Other securities	278	278
Loans	4,956,728	2,130,765
Real estate	3,919	4,103
Cash	114,100	4,000
Total	<u>14,551,665</u>	<u>10,221,761</u>

Obligation under guarantees

The Company provides a variety of guarantees to its customers to enhance their credit standing and enable them to complete a wide variety of business transactions. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Guarantee arrangements have been recorded on the Company's consolidated balance sheet at their fair value at inception as "Other liabilities" with an offsetting entry in "Other assets". As cash is received under such arrangements and applied to other assets, the liability recorded at inception is amortized into fees and commissions over the life of the contract. The table below summarizes all of the Company's guarantees under ASC 460 as of December 31, 2009.

	<u>Expire within one year</u>	<u>Expire after one year</u>	<u>Total</u>	<u>Maximum potential amount of future payment or notional amounts</u>
	(In millions of Korean won)			
Financial guarantees	293,038	303,150	596,188	596,188
Performance guarantees	3,682,165	1,947,359	5,629,524	5,629,524
Liquidity facilities to SPEs	469,513	1,105,857	1,575,370	1,575,370
Trust Fund Guarantees	506,323	2,362,189	2,868,512	2,868,512
Total	4,951,039	5,718,555	10,669,594	10,669,594

The table below summarizes all of the Company's guarantees under ASC 460 as of December 31, 2010.

	<u>Expire within one year</u>	<u>Expire after one year</u>	<u>Total</u>	<u>Maximum potential amount of future payment or notional amounts</u>
	(In millions of Korean won)			
Financial guarantees	596,203	6,272	602,475	602,475
Performance guarantees	4,114,604	728,053	4,842,657	4,842,657
Liquidity facilities to SPEs	396,050	715,112	1,111,162	1,111,162
Trust Fund Guarantees	693,512	2,260,945	2,954,457	2,954,457
Total	5,800,369	3,710,382	9,510,751	9,510,751

Financial guarantees are used in various transactions to enhance the credit standing of the Company's customers. They represent irrevocable assurance, subject to satisfaction of certain conditions, that the Company will make payments in the event that the customers fail to fulfill their obligations to third parties. Such financial obligations are principally composed of standby letters of credit and credit enhancement for debtors.

Performance guarantees are issued to guarantee customers' tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contract terms. They are also issued to support the customers' obligation to supply specified products, commodities, maintenance or other services to third parties.

As of December 31, 2009 and 2010, the carrying amount of the liabilities related to financial and performance guarantees amounted to (Won)19,433 million and (Won)11,109 million, respectively.

Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines including commercial paper purchase agreements to SPEs for which the Company serves as the administrator. The SPEs are established by clients to have access to funding from the commercial paper market or the corporate debt market by transferring assets to the SPEs. The Company had commitments to provide liquidity to SPEs up

to (Won)1,575 billion and (Won)1,111 billion as of December 31, 2009 and 2010, respectively. As of December 31, 2009 and 2010, the carrying amount of these liabilities amounted to (Won)10,375 million and (Won)8,166 million, respectively. Although the Company does not sell assets to these SPEs, it would be required to provide funding under the liquidity credit lines in the event that the SPEs do not hold enough funds to make scheduled payments on their outstanding senior debt securities. Under the commercial paper purchase agreements, the Company is required to purchase commercial paper issued by the SPEs when enough funding is not available in the commercial paper market. The Company has limited credit exposure to these SPEs because the risk of first loss is borne by the clients or other third parties, or the SPEs are over-collateralized.

In the normal course of the Company's business, indemnification clauses are often included in standard contracts with an assessment that risk of loss is remote. In many cases, there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. No amounts were reflected in the consolidated balance sheets as of December 31, 2009 and 2010 related to these indemnifications.

The Company evaluates the performance risk of its guarantees based on the assigned referenced counterparty internal or external ratings. Where external ratings are used, investment-grade ratings are considered to be BBB- and above, while anything below is considered non-investment grade. The Company's internal ratings are in line with the related external rating system. On certain underlying referenced credits or entities, ratings are not available. Such referenced credits are included in the "Not-rated" category. The maximum potential amount of the future payments related to guarantees is determined to be the notional amount of these contracts, which is the par amount of the assets guaranteed.

Presented in the table below is the maximum potential amount of future payments classified based upon internal and external credit ratings as of December 31, 2009.

	<u>Investment Grade</u>	<u>Non-Investment Grade</u>	<u>Not Rated</u>	<u>Total</u>
	(In millions of Korean won)			
Financial guarantees	446,867	149,321	—	596,188
Performance guarantees	3,395,785	2,231,415	2,324	5,629,524
Liquidity facilities to SPEs	1,220,606	354,764	—	1,575,370
Trust Fund Guarantees	—	—	2,868,512	2,868,512
Total	<u>5,063,258</u>	<u>2,735,500</u>	<u>2,870,836</u>	<u>10,669,594</u>

Presented in the table below is the maximum potential amount of future payments classified based upon internal and external credit ratings as of December 31, 2010.

	<u>Investment Grade</u>	<u>Non-Investment Grade</u>	<u>Not Rated</u>	<u>Total</u>
	(In millions of Korean won)			
Financial guarantees	475,030	127,387	58	602,475
Performance guarantees	3,255,244	1,583,399	4,014	4,842,657
Liquidity facilities to SPEs	910,450	200,712	—	1,111,162
Trust Fund Guarantees	—	—	2,954,457	2,954,457
Total	<u>4,640,724</u>	<u>1,911,498</u>	<u>2,958,529</u>	<u>9,510,751</u>

32. Concentrations of Geographic and Credit Risk

Geographic risk

Loans to borrowers based in Korea comprised 99% of the Company's loan portfolio as of December 31, 2009 and 2010. Investments in debt and equity securities of Korean entities comprised 99% of the Company's investment portfolio, including investments held by the Company's venture capital subsidiaries, as of December 31, 2009 and 2010.

Loans to related parties

The table below summarizes the changes in the amount of loans to directors, director nominees and executive officers.

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Loans, January 1,	6,970	12,245
New loans	6,486	6,383
Repayments	<u>(1,211)</u>	<u>(11,452)</u>
Loans, December 31,	<u>12,245</u>	<u>7,176</u>

The outstanding balances as of December 31, 2008, 2009, and 2010 and the related expense and income for the years then ended with respect to related party transactions were as follows:

	<u>2008</u>												
	<u>Trusts (1)</u>	<u>DSME (4)</u>	<u>Money Today (4)</u>	<u>SK (4)</u>	<u>HITE (5)</u>	<u>LGInt (4)</u>	<u>Ace Tech (4)</u>	<u>Kolon INet (2)</u>	<u>Uclick (3)</u>	<u>Kolon Benit (2)</u>	<u>KB Life</u>	<u>ING Life</u>	<u>Directors</u>
	(In millions of Korean won)												
Loans	—	—	—	150,000	—	101,562	2,000	35,033	—	—	—	—	6,970
Due from customers on acceptances	—	—	—	—	—	44,990	—	—	—	—	—	—	—
Receivables	14,743	—	—	—	—	—	—	—	—	—	—	—	—
Borrowings	2,775,135	—	—	—	—	—	—	—	—	—	—	—	—
Interest income on loans	—	—	5	8,295	290	2,124	68	331	38	—	9	—	95
Fees and commission income	101,274	36	—	—	—	153	—	32	—	—	47,951	10,674	—
Interest expense on borrowings	72,001	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of goods and services	—	—	—	—	—	—	—	—	3,006	182	—	—	—

(1) See Note 36

(2) The non-executive director of the Company, is the CEO and non-executive director of Kolon INet and Kolon Benit, respectively.

(3) The non-executive director of the Company, is the majority stockholder of Uclick.

(4) The non-executive directors of the Company during the year were also non-executive directors of the entities above.

(5) The non-executive director of the Company during the year was the senior advisor of the entity.

(6) Represent directors, director nominees, executive officers (Deputy President or higher) and their immediate family members.

2009

	<u>Trusts</u> ⁽¹⁾	<u>LGInt</u> ⁽⁴⁾	<u>Aju Auto Rental</u> ⁽⁵⁾	<u>Kolon INet</u> ⁽²⁾	<u>SK</u> ⁽⁴⁾	<u>Ace Tech</u> ⁽⁴⁾	<u>KB Life</u>	<u>Uclick</u> ⁽³⁾	<u>Kolon Benit</u> ⁽²⁾	<u>Directors</u> ⁽⁶⁾
	(In millions of Korean won)									
Loans	—	—	17,548	9,970	150,000	—	—	—	—	12,245
Due from customers on acceptances	—	—	—	—	—	—	—	—	—	—
Receivables	22,959	—	—	—	—	—	—	—	—	—
Borrowings	1,658,160	—	—	—	—	—	—	—	—	—
Interest income on loans	—	826	1,312	1,054	8,295	20	1	—	—	646
Fees and commission income	126,785	12	—	2	—	—	34,636	—	—	—
Interest expense on borrowings	56,438	—	—	—	—	—	—	—	—	—
Purchase of goods and services	—	—	—	—	—	—	—	603	102	—

⁽¹⁾ See Note 36

⁽²⁾ The non-executive director of the Company, is the CEO and non-executive director of Kolon INet and Kolon Benit, respectively.

⁽³⁾ The non-executive director of the Company, is the majority stockholder of Uclick.

⁽⁴⁾ The non-executive directors of the Company during the year were also non-executive directors of the entities above.

⁽⁵⁾ The non-executive director of the Company during the year was the senior advisor of the entity.

⁽⁶⁾ Represent directors, director nominees, executive officers (Deputy President or higher) and their immediate family members.

2010

	<u>Trusts</u> ⁽¹⁾	<u>SK</u> ⁽²⁾	<u>Cheil</u> ⁽²⁾	<u>KB Life</u>	<u>Directors</u> ⁽³⁾
	(In millions of Korean Won)				
Loans	—	150,000	—	—	7,176
Due from customers on acceptances	—	—	15,716	—	—
Receivables	22,151	—	—	—	—
Borrowings	1,834,461	—	—	—	—
Interest income on loans	—	8,295	—	—	112
Fees and commission income	148,453	—	2	38,499	—
Interest expense on borrowings	32,242	—	—	—	—
Purchase of goods and services	—	—	—	—	—

⁽¹⁾ See Note 36

⁽²⁾ The non-executive directors of the Company during the year were also non-executive directors of the entities above.

⁽³⁾ Represent directors, director nominees, executive officers (Deputy President or higher) and their immediate family members.

34. Operating Subsidiaries

Operating subsidiaries of the Company as of December 31, 2010 were as follows:

	<u>Country of Incorporation</u>	<u>Percentage ownership</u>
Kookmin Bank	Korea	100.00%
KB Investment & Securities Co., Ltd.	Korea	100.00%
KB Asset Management Co., Ltd.	Korea	100.00%
KB Real Estate Trust Co., Ltd.	Korea	100.00%
KB Investment Co., Ltd.	Korea	100.00%
KB Futures Co., Ltd.	Korea	100.00%
KB Credit Information Co., Ltd.	Korea	100.00%
KB Data Systems Co., Ltd.	Korea	100.00%
Kookmin Bank Hong Kong Ltd. ⁽³⁾	Hong Kong	100.00%
Kookmin Bank Int'l Ltd. ⁽³⁾	United Kingdom	100.00%
Kookmin Bank Cambodia PLC. ⁽¹⁾⁽³⁾	Cambodia	53.19%
KB Investment & Securities Hong Kong Ltd. ⁽⁴⁾	Hong Kong	100.00%
Powernet Technologies Corporation. ⁽²⁾⁽⁵⁾	Korea	92.64%

⁽¹⁾ Kookmin Bank Cambodia PLC. newly became a subsidiary of the Company in 2009.

⁽²⁾ Powernet Technologies Corporation. newly became a subsidiary of the Company in 2010.

⁽³⁾ Indicates percentage of ownership by Kookmin Bank.

⁽⁴⁾ Indicates percentage of ownership by KB Investment & Securities Co., Ltd.

⁽⁵⁾ Indicates percentage of ownership by Chungkang Co., Ltd. that is wholly-owned by KB-Glenwood Private Equity Fund No. 1 of which KB Investment & Securities Co., Ltd. owns 0.03% of the shares.

All holdings are in the common shares of the undertaking concerned. Certain VIEs, which have been consolidated in accordance with the accounting guidance for consolidation of VIEs as of December 31, 2009 and 2010, are not included in the list of operating subsidiaries.

35. Segment Reporting

For management reporting purposes, the Company's business segment results are reported to management under Korean GAAP. The Company is organized into four major business segments: Retail Banking, Corporate Banking, Capital Markets Activities and Credit Card Operations. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Company's management organization, and provide the basis on which the Company reports its primary segment information:

- Retail banking—The retail banking segment's assets and liabilities are mainly with individuals and households. This segment handles private customer current accounts, savings, deposits, consumer loans and mortgage loans.
- Corporate banking—The corporate banking segment's assets and liabilities are mainly with private and public enterprises. The activities within this segment include loans, overdrafts, other credit facilities, deposits in foreign currencies and other foreign currency activities.
- Capital markets activities—Activities within this segment include trading activities in securities and derivatives, activities involving investment security portfolios, and foreign currency funding through debentures and borrowings.
- Credit card operations—The credit card segment's assets and liabilities are mainly with individuals or corporate cardholders and card merchants, and it handles domestic as well as overseas credit and debit card operations.

Other operations of the Company are comprised of activities of its subsidiaries and other consolidated entities, activities of trust account management activities, none of which constitute a separately reportable segment.

Operating income and expenses and interest income and expenses, related to both third party and inter-segment transactions, are included in determining the operating earnings of each segment. The provision for income tax is comprised of corporate income tax and resident tax surcharges. The income tax expenses are allocated to the respective segment based on performance. Transactions between the business segments are reflected on terms established by management.

The segment results were prepared based on Korean GAAP and a reconciliation to U.S. GAAP has been provided for certain line items. Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

A summary of the business segment results is shown in the following table:

Year ended December 31, 2008	Retail Banking	Corporate Banking	Capital Markets Activities	Credit Card Operations	Other	Total segment	Inter-segment Transactions ⁽¹⁾	U.S. GAAP Adjustments	Total
(In millions of Korean won)									
Operating income	13,221,279	10,795,406	35,060,413	2,420,638	4,344,574	65,842,310	(19,548,677)	(27,512,912)	18,780,721
Operating expense	11,501,353	10,996,918	34,941,864	1,938,147	3,581,537	62,959,819	(19,381,568)	(26,584,315)	16,993,936
Segment results	<u>1,719,926</u>	<u>(201,512)</u>	<u>118,549</u>	<u>482,491</u>	<u>763,037</u>	<u>2,882,491</u>	<u>(167,109)</u>	<u>(928,597)</u>	<u>1,786,785</u>
Interest income	12,224,734	9,551,144	4,352,695	2,115,252	1,385,306	29,629,131	(12,713,112)	(1,087,577)	15,828,442
Interest expense	9,256,727	8,206,760	4,204,987	614,730	564,010	22,847,214	(13,337,045)	(150,516)	9,359,653
Net interest income (expense)	2,968,007	1,344,384	147,708	1,500,522	821,296	6,781,917	623,933	(937,061)	6,468,789
Provision for credit losses	203,038	1,351,006	12,789	98,393	163,227	1,828,453	(1,233)	486,234	2,313,454
Non-interest income	996,545	1,244,262	30,707,718	305,386	2,959,268	36,213,179	(6,835,565)	(26,425,335)	2,952,279
Non-interest expenses	1,822,477	1,384,180	30,723,017	1,166,056	2,722,721	37,818,451	(6,061,312)	(26,843,497)	4,913,642
Net non-interest income (expenses)	(825,932)	(139,918)	(15,299)	(860,670)	236,547	(1,605,272)	(774,253)	418,162	(1,961,363)
Depreciation and amortization	219,111	54,972	1,071	58,968	131,579	465,701	18,022	(76,536)	407,187
Extraordinary gain	—	—	—	—	—	—	—	—	—
Net income (loss) before tax expense (benefits)	1,719,926	(201,512)	118,549	482,491	763,037	2,882,491	(167,109)	(928,597)	1,786,785
Income tax expense (benefit)	472,980	(55,416)	32,600	132,686	94,400	677,250	164,832	(388,235)	453,847
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	—	—	—
Net income (loss)	<u>1,246,946</u>	<u>(146,096)</u>	<u>85,949</u>	<u>349,805</u>	<u>668,637</u>	<u>2,205,241</u>	<u>(331,941)</u>	<u>(540,362)</u>	<u>1,332,938</u>
Segments' total assets	<u>98,796,601</u>	<u>91,525,828</u>	<u>51,037,945</u>	<u>11,225,114</u>	<u>35,429,231</u>	<u>288,014,719</u>	<u>(20,465,928)</u>	<u>(9,221,880)</u>	<u>258,326,911</u>

⁽¹⁾ Includes eliminations for consolidation, inter-segment transactions and certain differences in classification under management's reporting system.

⁽²⁾ Figures shown in the above table for the year ended December 31, 2008 represent the consolidated income statement data of Kookmin Bank for the period between January 1, 2008 and June 30, 2008 of (Won)1,263 billion and the Company for the period between September 29, 2008 and December 31, 2008 of (Won)610 billion under Korean GAAP. However, the consolidated income statement of the Company from September 29, 2008 and December 31, 2008 includes results of all subsidiaries from July 1, 2008 to December 31, 2008 because the acquisition cost of Kookmin Bank and its subsidiaries in connection with the comprehensive stock transfer pursuant to which the Company was established has been determined as the net asset amount of Kookmin Bank and its subsidiaries as of June 30, 2008 based on Korean GAAP.

Year ended December 31, 2009	Retail Banking	Corporate Banking	Capital Markets Activities	Credit Card Operations	Other	Total segment	Inter-segment Transactions ⁽¹⁾	U.S. GAAP Adjustments	Total
(In millions of Korean won)									
Operating income	10,767,548	9,117,257	19,508,950	2,559,243	2,863,332	44,816,330	(14,223,088)	(13,489,676)	17,103,566
Operating expense	9,603,133	9,165,844	19,394,967	1,932,273	3,471,157	43,567,374	(13,526,540)	(13,863,321)	16,177,513
Segment results	1,164,415	(48,587)	113,983	626,970	(607,825)	1,248,956	(696,548)	373,645	926,053
Interest income	9,889,533	8,378,695	3,846,266	2,288,233	135,708	24,538,435	(9,762,047)	(1,186,268)	13,590,120
Interest expense	7,449,611	6,556,592	3,701,876	463,649	593,218	18,764,946	(10,413,325)	(120,192)	8,231,429
Net interest income (expense)	2,439,922	1,822,103	144,390	1,824,584	(457,510)	5,773,489	651,278	(1,066,076)	5,358,691
Provision for credit losses	263,761	1,391,912	53,049	266,046	323,641	2,298,409	576	(94,992)	2,203,993
Non-interest income	878,015	738,562	15,662,684	271,010	2,727,624	20,277,895	(4,461,041)	(12,303,408)	3,513,446
Non-interest expenses	1,693,885	1,154,559	15,638,908	1,147,435	2,393,227	22,028,014	(3,131,927)	(13,585,003)	5,311,084
Net non-interest income (expenses)	(815,870)	(415,997)	23,776	(876,425)	334,397	(1,750,119)	(1,329,114)	1,281,595	(1,797,638)
Depreciation and amortization	195,876	62,781	1,134	55,143	161,071	476,005	18,136	(63,134)	431,007
Extraordinary gain	—	—	—	—	—	—	—	—	—
Net income (loss) before tax expense (benefits)	1,164,415	(48,587)	113,983	626,970	(607,825)	1,248,956	(696,548)	373,645	926,053
Income tax expense (benefit)	320,214	(13,362)	31,346	172,416	(464,782)	45,832	(20,918)	182,570	207,484
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	—	—	—
Net income (loss)	844,201	(35,225)	82,637	454,554	(143,043)	1,203,124	(675,630)	191,075	718,569
Segments' total assets	100,871,142	89,113,715	45,348,512	11,991,434	37,685,520	285,010,323	(22,841,873)	(8,313,018)	253,855,432

⁽¹⁾ Includes eliminations for consolidation, inter-segment transactions and certain differences in classification under management's reporting system.

Year ended December 31, 2010	Retail Banking	Corporate Banking	Capital Markets Activities	Credit Card Operations	Other	Total segment	Inter-segment Transactions ⁽¹⁾	U.S. GAAP Adjustments	Total
(In millions of Korean won)									
Operating income	9,735,200	8,191,828	11,046,821	2,550,892	4,128,085	35,652,826	(9,966,633)	(9,287,049)	16,399,144
Operating expense	9,104,529	8,948,482	11,128,449	1,990,770	4,352,537	35,524,767	(9,857,767)	(8,979,440)	16,687,560
Segment results	630,671	(756,654)	(81,628)	560,122	(224,452)	128,059	(108,866)	(307,609)	(288,416)
Interest income	9,018,180	7,835,889	3,353,268	2,229,997	1,066,954	23,504,288	(10,483,894)	15,605	13,035,999
Interest expense	6,719,691	5,835,431	3,431,347	428,815	518,383	16,933,667	(9,888,850)	(74,273)	6,970,544
Net interest income (expense)	2,298,489	2,000,458	(78,079)	1,801,182	548,571	6,570,621	(595,044)	89,878	6,065,455
Provision for credit losses	300,542	2,201,632	(106)	115,077	69,924	2,687,069	(41,651)	922,622	3,568,040
Non-interest income	717,020	355,939	7,693,553	320,895	3,061,131	12,148,538	517,261	(9,302,654)	3,363,145
Non-interest expenses	1,938,183	863,711	7,696,195	1,405,007	3,590,607	15,493,703	53,959	(9,758,254)	5,789,408
Net non-interest income (expenses)	(1,221,163)	(507,772)	(2,642)	(1,084,112)	(529,476)	(3,345,165)	463,302	455,600	(2,426,263)
Depreciation and amortization	146,113	47,708	1,013	41,871	173,623	410,328	18,775	(69,535)	359,568
Extraordinary gain	—	—	—	—	—	—	—	—	—
Net income (loss) before tax expense (benefits)	630,671	(756,654)	(81,628)	560,122	(224,452)	128,059	(108,866)	(307,609)	(288,416)
Income tax expense (benefit)	152,622	(183,110)	(19,754)	135,550	(152,683)	(67,375)	(13,616)	385,099	304,108
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	—	—	—
Net income (loss)	478,049	(573,544)	(61,874)	424,572	(71,769)	195,434	(95,250)	(692,708)	(592,524)
Segments' total assets	99,116,624	86,755,985	45,595,806	12,333,118	41,292,855	285,094,388	(23,086,420)	(10,255,966)	251,752,002

The allowance for loan losses under U.S.GAAP for each segment is as follows:

	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>Capital Markets Activities</u>	<u>Credit Card Operations</u>	<u>Other</u>	<u>Total</u>
	(In millions of Korean won)					
As of December 31, 2009	461,013	2,532,894	335	202,173	144,631	3,341,046
As of December 31, 2010	471,728	3,483,634	421	165,912	125,631	4,247,326

The following is a reconciliation of the business segments' total assets under Korean GAAP as of December 31, 2008, 2009 and 2010 to the consolidated total assets under U.S.GAAP:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)		
Segments' total assets	288,014,719	285,010,323	285,094,388
U.S. GAAP adjustments	(9,221,880)	(8,313,018)	(10,255,966)
Cash and cash equivalents	604,598	(129,864)	(212,517)
Restricted cash	887,372	453,122	3,014
Interest-bearing deposits in other banks	(1,706,276)	(879,692)	(559,572)
Call loans and securities purchased under resale agreements	19,491	(447)	10,311
Trading assets	(2,933,946)	(2,409,763)	(2,878,867)
Investment	(2,132,307)	(2,526,622)	(4,345,061)
Loans (net of allowance for loan losses)	1,798,977	2,189,741	1,119,427
Premises and equipment, net	(1,727,649)	(1,728,172)	(1,733,769)
Accrued interest and dividends receivable	(147,496)	(124,553)	(227,980)
Security deposits	(2,000)	(103,477)	(77,534)
Goodwill	341,765	442,695	528,144
Other intangible assets	34,474	11,027	5,475
Other assets	(4,258,883)	(3,507,013)	(1,887,037)
Inter-segment transactions	(20,465,928)	(22,841,873)	(23,086,420)
Consolidated total assets	<u>258,326,911</u>	<u>253,855,432</u>	<u>251,752,002</u>

The following is a reconciliation of the business segment's operating income under Korean GAAP for the years ended December, 31, 2008, 2009 and 2010 to the consolidated operating income under U.S. GAAP:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)		
Segments' operating income	65,842,310	44,816,330	35,652,826
U.S. GAAP adjustments:	<u>(27,512,912)</u>	<u>(13,489,676)</u>	<u>(9,287,049)</u>
Interest and dividend income:			
Deposits in other banks	(37,278)	(48,354)	(41,126)
Loans, including fees	(925,841)	(1,004,779)	284,167
Trading assets	(139,742)	(96,340)	(48,451)
Investment securities	4,396	(38,915)	(186,902)
Call loans and securities purchased under resale agreements	10,888	2,120	7,917
	<u>(1,087,577)</u>	<u>(1,186,268)</u>	<u>15,605</u>
Non-interest income:			
Trust fees, nets	20,980	23,701	21,586
Other fees and commission income	825,337	895,026	(397,892)
Net trading revenue	(25,837,632)	(12,061,769)	(7,498,021)
Net gain on investments	(625,070)	(190,683)	(251,702)
Other non-interest income	(808,950)	(969,683)	(1,176,625)
	<u>(26,425,335)</u>	<u>(12,303,408)</u>	<u>(9,302,654)</u>
Inter-segment transactions	<u>(19,548,677)</u>	<u>(14,223,088)</u>	<u>(9,966,633)</u>
Consolidated operating income	<u>18,780,721</u>	<u>17,103,566</u>	<u>16,399,144</u>

The adjustments presented in the tables above represent consolidated assets and revenues not specifically allocated to individual business segments.

Differences between U.S. GAAP and Korean GAAP

The following is a summary of the significant adjustments made to consolidated total assets and revenue to reconcile the U.S. GAAP results with those under Korean GAAP.

Allowance for loan losses: Under U.S. GAAP, the allowance for loan losses for specifically identified impaired non-homogeneous loans has been established based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair value of the collateral if the loan was collateral dependent or (3) observable market prices if available. For homogeneous corporate and consumer loans, the allowance for loan losses was established based on an evaluation of the historical performance of the loan portfolios. Under Korean GAAP, the allowance for loan losses has been determined at the larger of the allowance based on historical loss rates of loan portfolios or the one based on the loan classification guidelines and prescribed loss ratio of the Financial Service Commission. For the allowance for loan losses as of December 31, 2010, the Company used the allowance based on the Financial Service Commission Guidelines as it was greater than the one based on the historical loss rates.

Deferred loan costs: Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized over the life of the related loans as an adjustment to the yield of the loans, net of any related fees received. Under Korean GAAP, origination costs related to wages and salaries are recognized as expense when accrued.

Securities and hedging derivatives accounting: For 2008, under U.S. GAAP, decreases in fair value with respect to all securities below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. In determining whether a decrease in fair value is other-than-temporary, the following factors were considered: the length of time and the extent to which the market value had been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, when the recoverable value of available-for-sale or held-to-maturity securities is less than their amortized acquisition costs and there is any objective evidence of impairment, then their book value is adjusted to their recoverable amount, and the declines in book value are reflected in current loss as impairment losses. For 2009 and 2010, under U.S. GAAP, decreases in fair value with respect to equity securities below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. For investment debt securities that the Company does not intend to sell and it is not more-likely-than-not the Company will be required to sell the securities before the expected recovery of the amortized cost basis, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated comprehensive income. In determining whether a credit loss exists and the period over which the debt security is expected to recover, the following factors were considered: the length of time and the extent to which the market value had been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, when the recoverable value of available-for-sale or held-to-maturity securities is less than their amortized acquisition costs and there is any objective evidence of impairment, then their book value is adjusted to their recoverable amount, and the declines in book value are reflected in current loss as impairment losses.

Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be formally designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness would be assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting are less prescriptive. Accordingly, the majority of the derivatives accounted for as hedges under Korean GAAP do not qualify for hedge accounting under U.S. GAAP. This adjustment reflects the effects of the reversal of the hedge accounting treatment under Korean GAAP.

Accounting for Transfers of Financial Assets: Under U.S. GAAP, the transfer of financial assets is recorded as a sale if specific and prescriptive criteria were met relating to the transferor's relinquishing control. If these criteria were not met, the transfer would be treated as a secured borrowing. Certain transfers (including loan transfers in connection with asset securitization transactions) that qualified for derecognition as sales under Korean GAAP did not meet U.S. GAAP criteria for derecognition as sales.

Fixed Assets: Under Korean GAAP, certain fixed assets were revalued upward in 1998 and 2008. As a result of this revaluation, the revaluation gain is included in total equity, and depreciation expense related to the revalued fixed assets is determined based on the new cost basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense is based on historical cost.

Goodwill: Under Korean GAAP, goodwill is amortized over its useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. Under U.S. GAAP, goodwill is not amortized, but rather it is tested for impairment at least annually or when events or circumstances indicate that impairment has occurred.

Finite-lived Intangible Assets: Under U.S. GAAP, finite-lived intangible assets which meet certain criteria are recognized in a business combination transaction and amortized over their useful lives. Under Korean GAAP, as the criteria that must be met in order to recognize intangible assets is not clearly specified, in practice, they are included as part of goodwill.

Foreign Currency Translation: Under U.S. GAAP, all unrealized gains and losses arising from available-for-sale securities are recorded in accumulated other comprehensive income (loss); however under Korean GAAP, the portion of unrealized gains and losses on available-for-sale securities arising from foreign currency translation were recognized in earnings.

Stock-based Compensation: Under U.S. GAAP, compensation costs of stock options and grants are recognized using the fair value method. Under Korean GAAP, the compensation costs of stock options granted by 2006 were recognized using the intrinsic value method and prospectively, the costs of stock options and grants granted from 2007 are recognized using the fair value method.

Consolidation of Variable Interest Entities (“VIEs”): Under U.S. GAAP, VIEs for which the Company has been determined to be the primary beneficiary are consolidated. Under Korean GAAP, certain VIEs which are established in the course of assets-backed securitizations of loans are deconsolidated under the Law of Securitization, but the majority of the VIEs do not qualify for deconsolidation under U.S. GAAP. This adjustment reflects the effects of the reversal of the securitization accounting treatment under Korean GAAP.

Income tax expense: Under U.S. GAAP, a tax position taken or expected to be taken in a tax return is evaluated to determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position, and then the tax positions that meet the more -likely -than -not criteria is measured to determine the amount of benefit to recognize in the financial statements. The tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized are reflected in the financial statements as adjustments of income tax expense, deferred tax assets/liabilities. In addition, interest and penalties related to tax positions are adjusted as a component of income tax expense. Under Korean GAAP, as the guidelines to recognize and measure the benefits of uncertain tax positions are not clearly specified, in practice, they are adjusted in income tax expense when realized.

Fair value: Under Korean GAAP, fair value is measured at the amount for which an asset can be exchanged between knowledgeable willing parties in an arm’s length transaction. Fair value measurements are not made for liabilities. Under U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant.

36. Trust Accounts

The Company offers a variety of asset management and administration services under trust arrangements in accordance with the Korean Trust Law and the Korean Capital Market and Financial Investment Business Act. The trust accounts managed by the Company are classified into performance based trusts and guaranteed trusts in terms of the nature of the trusts, and the guaranteed trusts consist of Guaranteed Principal Money Trusts and Guaranteed Fixed Rate Money Trusts.

The Guaranteed Principal Money Trusts require the Company to guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Company guarantees a specified rate of return on the principal amount invested in Guaranteed Fixed Rate Money Trusts. Based on the Company’s analysis of potential risk and reward generated from the guaranteed trusts, the Guaranteed Fixed Rate Money Trusts were consolidated in the Company’s financial statements in accordance with the accounting guidance for consolidation of VIEs. For further discussion on the consolidation scope of the trust accounts, refer to Note 9.

With respect to the managing of the trust accounts, the Company charges investment management fees on the Guaranteed Principal Money Trusts and other performance based trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

37. Parent Company Information

The following tables present the Parent Company Only financial information:

Condensed Statement of Income

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Income		
Dividends from subsidiaries:		
Dividends from banking subsidiaries	—	95,305
Dividends from nonbanking subsidiaries	98,200	—
Interest from subsidiaries	19,244	35,200
Other income	1,041	3,257
Total income	<u>118,485</u>	<u>133,762</u>
Expense		
Interest expense	55,556	53,431
Noninterest expense	45,940	37,374
Total expense	<u>101,496</u>	<u>90,805</u>
Income before income taxes and equity in undistributed earnings of subsidiaries	16,989	42,957
Income tax benefit	(229)	(367)
Income before equity in undistributed earnings of subsidiaries	17,218	43,324
Equity in undistributed earnings (losses) of subsidiaries:		
Banking subsidiaries	714,773	(695,837)
Nonbanking subsidiaries	(11,350)	64,398
Total equity in undistributed earnings (losses) of subsidiaries	<u>703,423</u>	<u>(631,439)</u>
Net income (loss)	<u>720,641</u>	<u>(588,115)</u>

Condensed Balance Sheet

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Assets		
Cash held at bank subsidiaries	15,363	159,995
Receivables from nonbanking subsidiaries	170,000	160,000
Investments in subsidiaries:		
Banking subsidiaries	16,324,652	15,725,580
Nonbanking subsidiaries	921,929	986,626
Other assets	913,614	907,623
Total assets	<u>18,345,558</u>	<u>17,939,824</u>
Liabilities and shareholders' equity		
Other borrowed funds	—	750,000
Other liabilities	7,569	143,938
Long-term debt	798,421	49,353
Shareholders' equity	<u>17,539,568</u>	<u>16,996,533</u>
Total liabilities and shareholders' equity	<u>18,345,558</u>	<u>17,939,824</u>

Condensed Statement of Cash Flows

	<u>2009</u>	<u>2010</u>
	(In millions of Korean won)	
Operating activities		
Net income (loss)	720,641	(588,115)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Equity in undistributed (earnings) losses of subsidiaries	(703,423)	631,439
Other operating activities, net	<u>(818,249)</u>	<u>239,693</u>
Net cash provided by (used in) operating activities	<u>(801,031)</u>	<u>283,017</u>
Investing activities		
Net payments from (to) subsidiaries	(270,000)	10,000
Other investing activities, net	<u>(86,401)</u>	<u>(69,488)</u>
Net cash used in investing activities	<u>(356,401)</u>	<u>(59,488)</u>
Financing activities		
Net decrease in commercial paper and other short-term borrowings	(232,000)	—
Proceeds from issuance of long-term debt	299,066	—
Proceeds from issuance of common stock	1,103,883	—
Cash dividends paid	—	(78,897)
Net cash provided by financing activities	<u>1,170,949</u>	<u>(78,897)</u>
Net increase in cash held at bank subsidiaries	<u>13,517</u>	<u>144,632</u>
Cash held at bank subsidiaries at January 1	<u>1,846</u>	<u>15,363</u>
Cash held at bank subsidiaries at December 31	<u>15,363</u>	<u>159,995</u>

Condensed statements of income and cash flows for the year ended December 31, 2008 have been omitted from the above disclosure because the parent company, KB Financial Group Inc., was established as part of a reorganization of Kookmin Bank and its subsidiaries in September 2008 as discussed in Note 3. As a result of the reorganization, it is impracticable to prepare the Parent Company Only condensed statements of income and cash flows for the year ended December 31, 2008.

38. Subsequent Events

Kookmin Bank sold 8,355,742 shares of KB Financial Group Inc. for the period from January 14, 2011 through March 25, 2011, and accordingly, the remaining KB Financial Group Inc.'s shares which are now owned by Kookmin Bank is 34,966,962 shares.

On February 28, 2011, Kookmin Bank reorganized its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., on March 2, 2011.

KB investment & Securities Co., Ltd. merged with KB Future Co., Ltd. on March 12, 2011.

I, Yoon-Dae Euh, certify that:

1. I have reviewed this annual report on Form 20-F of KB Financial Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 20, 2011

/s/ Yoon-Dae Euh

Yoon-Dae Euh
Chairman and
Chief Executive Officer

I, Jong Kyoo Yoon, certify that:

1. I have reviewed this annual report on Form 20-F of KB Financial Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 20, 2011

/s/ Jong Kyoo Yoon

Jong Kyoo Yoon
Deputy President and Chief Financial
Officer

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsection (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsection (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of KB Financial Group Inc., a corporation organized under the laws of the Republic of Korea (the "Company"), does hereby certify, to such officer's knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2010 (the "Form 20-F") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: June 20, 2011

/s/ Yoon-Dae Euh

Yoon-Dae Euh
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to KB Financial Group Inc. and will be retained by KB Financial Group Inc. and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsection (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsection (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of KB Financial Group Inc., a corporation organized under the laws of the Republic of Korea (the "Company"), does hereby certify, to such officer's knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2010 (the "Form 20-F") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: June 20, 2011

/s/ Jong Kyoo Yoon

Jong Kyoo Yoon
Deputy President and
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to KB Financial Group Inc. and will be retained by KB Financial Group Inc. and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (No. 333-160505) of KB Financial Group Inc. of our report dated June 20, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
June 20, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form F-3 (No. 333-160505) of KB Financial Group Inc. (the "Company") of our report dated May 22, 2009 relating to the consolidated financial statements (before the effects of the adjustments to retrospectively apply the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15) discussed in Note 1 to the consolidated financial statements) of the Company (which report expresses an unqualified opinion and includes explanatory paragraphs related to the adjustments to retrospectively apply the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15) which were audited by other auditors), appearing in the Annual Report on Form 20-F of the Company for the year ended December 31, 2010.

/s/ Deloitte Anjin LLC

Seoul, Korea
June 20, 2011