

**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, 2011
- 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
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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	Name of each exchange on which registered
American Depositary Shares, each representing one share of Common Stock	New York Stock Exchange
Common Stock, par value ₩5,000 per share	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 ₩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

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS as issued by the IASB with respect to our consolidated financial statements as of and for the years ended December 31, 2010 and 2011 included in this annual report. Unless indicated otherwise, the financial information in this annual report (i) as of and for the years ended December 31, 2010 and 2011 has been prepared in accordance with IFRS as issued by the IASB, and (ii) as of and for the years ended December 31, 2007, 2008 and 2009 has been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which is not comparable to information prepared in accordance with IFRS. For an explanation of how the transition to IFRS has affected our consolidated financial statements, see Note 46 of the notes to our consolidated financial statements.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission which became effective on March 4, 2008, we are not required to provide a reconciliation to U.S. GAAP. Furthermore, pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time application of IFRS, no audited financial statements and financial information prepared under IFRS for the year ended December 31, 2009 have been included in this annual report.

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

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 consolidated financial data 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.

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 “₩” 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 30, 2011, which was ₩1,158.5 = US\$1.00.

FORWARD-LOOKING STATEMENTS

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

Words and phrases such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "estimate," "expect," "future," "goal," "intend," "may," "objective," "plan," "positioned," "predict," "project," "risk," "seek to," "shall," "should," "will likely result," "will pursue," "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings "Item 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 allowances for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and
- adverse market and regulatory conditions.

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

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

- 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 MANAGEMENT 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, 2010 and 2011 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2010 and 2011 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers.

Pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time application of IFRS, financial and operating data as of and for the three years ended December 31, 2007, 2008 and 2009 derived from our consolidated financial statements prepared in accordance with U.S. GAAP have not been included below.

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

Consolidated statements of comprehensive income data

	Year Ended December 31,		
	2010	2011	2011 ⁽¹⁾
	(in billions of Won, except common share data)	(in billions of Won, except common share data)	(in millions of US\$, except common share data)
Interest income	₩ 13,052	₩ 13,956	US\$ 12,047
Interest expense	(6,878)	(6,852)	(5,914)
Net interest income	6,174	7,104	6,133
Fee and commission income	2,482	2,830	2,443
Fee and commission expense	(777)	(1,035)	(894)
Net fee and commission income	1,705	1,795	1,549
Net gains on financial assets and liabilities at fair value through profit and loss	815	1,036	894
Net other operating income (expenses)	(1,068)	(1,092)	(943)
Employee compensation and benefits	(2,407)	(1,871)	(1,615)
Depreciation and amortization	(348)	(343)	(296)
Other general and administrative expenses	(1,612)	(1,718)	(1,483)
General and administrative expenses	(4,367)	(3,932)	(3,394)
Operating profit before provision for credit losses	3,259	4,911	4,239
Provision for credit losses	(2,871)	(1,513)	(1,306)
Net operating profit	388	3,398	2,933
Share of profit of associates and joint ventures	(211)	5	4
Net other non-operating income (expense)	(28)	(142)	(123)
Profit before income tax	149	3,261	2,814
Tax income (expense)	71	(832)	(718)
Profit for the year	220	2,429	2,096
Exchange differences on translating foreign operations	(7)	6	6
Change in value of financial investments	108	(240)	(207)
Shares of other comprehensive income of associates and joint ventures	(2)	(1)	(1)
Cash flow hedges	—	(1)	(1)
Other comprehensive income (loss) for the year, net of tax	99	(236)	(203)
Total comprehensive income for the year	₩ 319	₩ 2,193	US\$ 1,893
Profit attributable to:			
Stockholders	₩ 147	₩ 2,373	US\$ 2,048
Non-controlling interests	73	56	48
	₩ 220	₩ 2,429	US\$ 2,096
Total comprehensive income attributable to:			
Stockholders	₩ 226	₩ 2,134	US\$ 1,842
Non-controlling interests	93	59	51
	₩ 319	₩ 2,193	US\$ 1,893
Earnings per share			
Basic earnings per share	₩ 427	₩ 6,461	US\$ 5.58
Diluted earnings per share	427	6,445	5.56

⁽¹⁾ Won amounts are expressed in U.S. dollars at the rate of ₩1,158.5 to US\$1.00, the noon buying rate in effect on December 30, 2011 as quoted by the Federal Reserve Bank of New York in the United States.

Consolidated statements of financial position data

	Year Ended December 31,		
	2010	2011	2011 ⁽¹⁾
	(in billions of Won)		(in millions of US\$)
Assets			
Cash and due from financial institutions	₩ 6,830	₩ 9,178	US\$ 7,922
Financial assets at fair value through profit and loss	4,014	6,326	5,461
Derivative financial assets	2,595	2,449	2,114
Loans	197,621	212,107	183,088
Financial investments	36,190	35,432	30,585
Investments in associates and joint ventures	723	892	770
Property and equipment	3,150	3,186	2,750
Investment property	53	52	44
Intangible assets	505	468	404
Deferred income tax assets	4	22	19
Assets held for sale	9	10	9
Other assets	7,077	7,479	6,455
Total assets	₩ 258,771	₩ 277,601	US\$239,621
Liabilities			
Financial liabilities at fair value through profit and loss	₩ 1,295	₩ 1,388	US\$ 1,198
Deposits	179,862	190,337	164,297
Debts	11,745	16,824	14,522
Derivative financial liabilities	2,236	2,059	1,778
Debentures	29,107	27,070	23,366
Provisions	1,020	798	689
Current income tax liabilities	30	589	508
Deferred income tax liabilities	284	221	191
Other liabilities	13,526	15,215	13,133
Total liabilities	₩ 239,105	₩ 254,501	US\$219,682
Total Equity			
Capital stock	₩ 1,932	₩ 1,932	US\$ 1,667
Capital surplus	15,990	15,842	13,675
Accumulated other comprehensive income	431	191	165
Retained earnings	2,621	4,953	4,275
Treasury shares	(2,477)	—	—
Equity attributable to stockholders	18,497	22,918	19,782
Non-controlling interests	1,169	182	157
Total equity	₩ 19,666	₩ 23,100	US\$ 19,939
Total liabilities and equity	₩ 258,771	₩ 277,601	US\$239,621

⁽¹⁾ Won amounts are expressed in U.S. dollars at the rate of ₩1,158.5 to US\$1.00, the noon buying rate in effect on December 30, 2011 as quoted by the Federal Reserve Bank of New York in the United States.

Profitability ratios and other data

	Year Ended December 31,	
	2010	2011
	(Percentages)	
Profit (loss) attributable to stockholders as a percentage of:		
Average total assets ⁽¹⁾	0.05%	0.86%
Average stockholders' equity ⁽¹⁾	0.76	10.07
Dividend payout ratio ⁽²⁾	28.08	11.72
Net interest spread ⁽³⁾	2.37	2.64
Net interest margin ⁽⁴⁾	2.58	2.88
Efficiency ratio ⁽⁵⁾	57.26	44.46
Cost-to-average assets ratio ⁽⁶⁾	1.63	1.43
Won loans (gross) as a percentage of Won deposits	107.56	107.97
Total loans (gross) as a percentage of total deposits	111.96	113.25

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

⁽²⁾ Represents the ratio of total dividends declared on common stock as a percentage of profit attributable to stockholders.

⁽³⁾ Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

⁽⁴⁾ Represents the ratio of net interest income to average interest earning assets.

⁽⁵⁾ Represents the ratio of general and administrative expenses to the sum of net interest income, net fee and commission income, net gain on financial assets and liabilities at fair value through profit and loss and net other operating income.

⁽⁶⁾ Represents the ratio of general and administrative expenses to average total assets.

Capital ratios

	Year Ended December 31,	
	2011	
	(Percentages)	
Consolidated capital adequacy ratio of KB Financial Group ⁽¹⁾	13.09%	
Capital adequacy ratios of Kookmin Bank		
Tier I capital adequacy ratio ⁽²⁾	10.30%	
Tier II capital adequacy ratio ⁽²⁾	3.25	
Average stockholders' equity as a percentage of average total assets	8.58	

⁽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%. 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. See "Item 5B. Liquidity and Capital Resources—Financial Condition—Capital Adequacy."

Credit portfolio ratios and other data

	As of December 31,	
	2010	2011
	(in billions of Won, except percentages)	
Total loans	₩201,377	₩215,555
Total non-performing loans ⁽¹⁾	1,516	1,117
Other impaired loans not included in non-performing loans	2,300	2,348
Total of non-performing loans and other impaired loans	3,816	3,465
Total allowances for loan losses	3,756	3,448
Non-performing loans as a percentage of total loans	0.75%	0.52%
Non-performing loans as a percentage of total assets	0.59	0.40
Total of non-performing loans and other impaired loans as a percentage of total loans	1.89	1.61
Allowances for loan losses as a percentage of total loans	1.87	1.60

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

Selected Statistical Information

Average Balance Sheets and Related Interest

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

	Year Ended December 31,					
	2010			2011		
	Average Balance ⁽¹⁾	Interest Income ⁽²⁾⁽³⁾	Average Yield	Average Balance ⁽¹⁾	Interest Income ⁽²⁾⁽³⁾	Average Yield
	(in billions of Won, except percentages)					
Assets						
Cash and interest earning deposits in other banks	₩ 1,879	₩ 38	2.02%	₩ 2,299	₩ 75	3.26%
Financial investment (debt securities) ⁽⁴⁾	32,449	1,502	4.63	32,655	1,469	4.50
Loans:						
Corporate	92,018	4,938	5.37	94,486	5,132	5.43
Mortgage	44,322	1,958	4.42	43,790	2,172	4.96
Home equity	26,524	1,258	4.74	29,399	1,513	5.15
Other consumer	28,075	1,996	7.11	29,179	2,176	7.46
Credit cards ⁽⁵⁾	11,924	1,293	10.84	12,378	1,342	10.84
Foreign	2,082	69	3.31	2,441	77	3.15
Loans (total)	204,945	11,512	5.62	211,673	12,412	5.86
Total average interest earning assets	₩239,273	₩13,052	5.45%	₩246,627	₩13,956	5.66%
Cash and due from banks	6,731	—	—	7,267	—	—
Financial assets at fair value through profit and loss:						
Debt securities	6,891	—	—	5,056	—	—
Equity securities	369	—	—	674	—	—
Other	20	—	—	20	—	—
Financial assets at fair value through profit and loss (total)	7,280	—	—	5,750	—	—
Financial investment (equity securities)	3,138	—	—	3,687	—	—
Investment in associates	744	—	—	764	—	—
Derivative financial assets	3,061	—	—	2,420	—	—
Premises and equipment	3,267	—	—	3,224	—	—
Intangible assets	454	—	—	477	—	—
Allowances for loan losses	(4,449)	—	—	(4,227)	—	—
Other non-interest earning assets	8,167	—	—	8,712	—	—
Total average non-interest earning assets	28,393	—	—	28,074	—	—
Total average assets	₩267,666	₩13,052	4.88%	₩274,701	₩13,956	5.08%

	Year Ended December 31,					
	2010			2011		
	Average Balance ⁽¹⁾	Interest Expense	Average Cost	Average Balance ⁽¹⁾	Interest Expense	Average Cost
	(in billions of Won, except percentages)					
Liabilities						
Deposits:						
Demand deposits	₩ 48,919	₩ 212	0.43%	₩ 53,824	₩ 314	0.58%
Time deposits	112,621	4,055	3.60	124,713	4,563	3.66
Certificates of deposit	11,044	442	4.00	1,746	68	3.89
Deposits (total)	172,584	4,709	2.73	180,283	4,945	2.74
Debts	15,494	306	1.97	18,475	399	2.16
Debentures	35,426	1,863	5.26	28,400	1,508	5.31
Total average interest bearing liabilities	₩223,504	₩6,878	3.08%	₩227,158	₩6,852	3.02%
Non-interest bearing demand deposits	3,348	—	—	3,249	—	—
Derivative financial liabilities	2,591	—	—	2,064	—	—
Financial liabilities at fair value through profit and loss	1,783	—	—	1,847	—	—
Other non-interest bearing liabilities	15,938	—	—	16,093	—	—
Total average non-interest bearing liabilities	23,660	—	—	23,253	—	—
Total average liabilities	247,164	6,878	2.78	250,411	6,852	2.74
Total equity	20,502	—	—	24,290	—	—
Total average liabilities and equity	₩267,666	₩6,878	2.57%	₩274,701	₩6,852	2.49%

- (1) Average balances are based on daily balances for our banking, credit card and investment and securities operations and monthly or quarterly balances for our other operations.
- (2) We do not invest in any tax-exempt securities.
- (3) Excludes interest income from debt securities at fair value through profit or loss.
- (4) 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.
- (5) Interest income from credit cards includes principally cash advance fees of ₩452 billion and ₩441 billion and interest on credit card loans of ₩464 billion and ₩484 billion, for the years ended December 31, 2010 and 2011, respectively, but does not include interchange fees.

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

	Year Ended December 31,	
	2010	2011
	(percentages)	
Net interest spread ⁽¹⁾	2.37%	2.64%
Net interest margin ⁽²⁾	2.58	2.88
Average asset liability ratio ⁽³⁾	107.06	108.57

- (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 2010 compared to 2011. 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.

	2011 vs. 2010 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total
	(in billions of Won)		
Interest earning assets			
Cash and interest earning deposits in other banks	₩ 10	₩ 27	₩ 37
Financial investment (debt securities)	9	(42)	(33)
Loans:			
Corporate	137	57	194
Mortgage	(24)	238	214
Home equity	142	113	255
Other consumer	80	100	180
Credit cards	49	—	49
Foreign	11	(3)	8
Total interest income	<u>₩ 414</u>	<u>₩490</u>	<u>₩ 904</u>

	2011 vs. 2010 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total
	(in billions of Won)		
Interest bearing liabilities			
Deposits:			
Demand deposits	₩ 23	₩ 79	₩ 102
Time deposits	440	68	508
Certificates of deposit	(362)	(12)	(374)
Debts	62	31	93
Debentures	(373)	18	(355)
Total interest expense	(210)	184	(26)
Total net interest income	<u>₩ 624</u>	<u>₩306</u>	<u>₩ 930</u>

Exchange Rates

The table below sets 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 30, 2011, which was ₩1,158.5 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 April 20, 2012, the noon buying rate was ₩1,138.1 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average ⁽¹⁾	Period-End
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
2011	1,049.2	1,197.5	1,106.9	1,158.5
October	1,102.5	1,197.5	1,150.7	1,112.1
November	1,110.6	1,162.0	1,133.5	1,140.1
December	1,124.5	1,175.5	1,148.1	1,158.5
2012 (through April 20)	1,115.7	1,160.0	1,130.6	1,138.1
January	1,120.1	1,160.0	1,140.3	1,125.7
February	1,115.7	1,128.9	1,122.7	1,117.1
March	1,116.0	1,139.8	1,126.2	1,131.4
April (through April 20)	1,122.4	1,143.4	1,134.8	1,138.1

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, amounted to ₩98,996 billion as of December 31, 2010 and ₩103,855 billion as of December 31, 2011. As of December 31, 2011, our retail loans represented 48.2% 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 in recent years and amounted to ₩27,281 billion as of December 31, 2010 and ₩28,275 billion as of December 31, 2011; as a percentage of total outstanding retail loans, such balance was 27.6% as of December 31, 2010 and 27.2% as of December 31, 2011. 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 the amount of our non-performing retail loans (defined as those that are past due by 90 days or more), which was ₩641 billion as of December 31, 2010 and ₩642 billion as of December 31, 2011, has remained relatively stable in recent years due to the stabilization of delinquency levels, our non-performing retail loans may increase in 2012 and in the future. 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 ₩500 million who are in arrears on their payments for more than 30 days but less than 90 days. While we believe that our participation in such pre-workout program has not had a material impact on the overall credit quality of our retail loan and credit card portfolio or on our results of operations and financial condition to date, our future participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers 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 30 days or more to total outstanding balances) was 1.0% as of December 31, 2010 and 1.5% as of December 31, 2011. In line with industry practice, we have restructured a portion of delinquent credit card account balances (defined as balances overdue by 30 days or more) as loans. As of December 31, 2011, these restructured loans outstanding amounted to ₩28 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 1.7% of our credit card receivables (including credit card loans) as of December 31, 2011. Delinquencies may increase in 2012 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”). Our loans to small- and medium-sized enterprises amounted to ₩65,132 billion as of December 31, 2010 and ₩68,730 billion as of December 31, 2011. During that period, non-performing loans (defined as those loans that are past due by 90 days or more) to small- and medium-sized enterprises decreased from ₩686 billion to ₩373 billion and the non-performing loan ratio for such loans decreased from 1.1% as of December 31, 2010 to 0.5% as of December 31, 2011 but may increase in 2012. 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 1.4% as of December 31, 2011. 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 decreased slightly from 1.1% as of December 31, 2010 to 1.0% as of December 31, 2011 but may increase in 2012. 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, retail and wholesale, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for our loans to small- and medium-sized enterprises will not rise in the future. In particular, financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea and globally 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, 2012, 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 2012 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, 2011, we had loans outstanding to construction companies and shipbuilding companies (many of which are small- and medium-sized enterprises) in the amount of ₩5,631 billion and ₩1,177 billion, or 2.6% and 0.5% 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 ₩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 ₩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.

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 our strategy to increase our fee income. Furthermore, the fees that we charge to customers are subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may also have an adverse impact on our ability to achieve this aspect of our strategy.

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

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

Risks relating to competition

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

Competition in the Korean financial industry has been and is likely to remain intense. Some of the financial institutions that we compete with have longer operating histories as financial holding companies, greater financial resources or more specialized capabilities than us and our subsidiaries. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on retail customers and small- and medium-sized enterprises in recent years, although they have begun to generally increase their exposure to large corporate borrowers. In addition, the profitability of our retail 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 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 acquisition of a controlling interest in Korea Exchange Bank in February 2012. 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, 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, 2011, 13 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 ₩22,777 billion, or 8.5% 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, 2011, our loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩1,152 billion or 0.5% of our total loans and guarantees, most of which was classified as impaired. As of the same date, our allowances for credit losses on these loans and guarantees amounted to ₩755 billion, or 65.5% 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, 2011 with respect to such securities of companies in workout, restructuring or rehabilitation amounted to ₩119 billion, or less than 0.3% 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, 2011, our aggregate loans and guarantees to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines amounted to ₩424 billion, of which ₩2 billion was classified as impaired. As of December 31, 2011, our allowances for credit losses with respect to such loans and guarantees amounted to ₩145 billion. Moreover, in 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 ₩38 billion of our loans to Kumho Tires and ₩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, 2011, our loans and guarantees to our 20 largest borrowers totaled ₩9,701 billion and accounted for 4.3% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to Hyundai Heavy Industries, to which we had outstanding credit exposures (most of which was in the form of guarantees and acceptances) of ₩1,761 billion, representing 0.8% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to record 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 2012 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor's Rating Services of the long-term sovereign credit rating of the United States to "AA+" from "AAA" in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Spain, Italy and other countries in Europe. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons program, as well as political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are implementing "exit strategies," in the form of reduced government spending 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. Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. 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.

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, 2011, 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 carrying amount of ₩18,389 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our statements of financial position is determined by references to suggested prices posted by Korean rating agencies or the Korea 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 either the principal amount of the investor’s investment or the principal and a fixed rate of interest.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from such trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2011, we had ₩87 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 2010 and 2011. 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 activities are subject to cybersecurity risk.

Our activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving. Cybersecurity risks include unauthorized access to privileged and sensitive customer information, including passwords and account information of our retail and corporate customers. For example, many of our customers increasingly rely on our Internet banking services for various types of transactions and while such transactions are protected by encryption and other security programs, they are not free from security breaches. We have made substantial investments to build systems and defenses to address threats from cyber attacks and we are not aware of any significant breaches to our systems from such attacks to date. However, we may experience security breaches or unexpected disruptions in connection with our services in the future, which may result in liability to our customers and third parties and have an adverse effect on our business, reputation and results of operations.

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.

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 gradually increased its policy rate in 2010 and 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, 2011, 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, 2011, our consolidated capital adequacy ratio was 13.09%, and Kookmin Bank's Tier I capital adequacy and its combined Tier I and Tier II

capital adequacy ratio was 10.30% and 13.55%, 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. 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. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. 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.” 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.

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 particular, since the death of the North Korean ruler Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Before his death, Kim Jong-il designated his third son, Kim Jong-eun, as his successor and named him as the vice chairman of the Central Military Commission and a general of the North Korean army. In April 2012, Kim Jong-eun also became the chairman of the National Defense Commission. However, the eventual outcome of such leadership transition remains uncertain. Furthermore, only limited information is available outside of North Korea about Kim Jong-eun, who is reported to be in his late twenties, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful. Accordingly, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future.

In recent years, there have also 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. 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 May 2009, North Korea announced that it had successfully conducted a second nuclear test. 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 March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility and 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 two Korean soldiers and two civilians, wounding many others and causing significant property damage. Korea responded by firing artillery shells back and putting the military on its highest level of alert. The Korean government condemned North Korea for the act and vowed stern retaliation should there be further provocation. In April 2012, North Korea attempted to launch a long-range missile, which it characterized as a satellite launch. In response, the United Nations Security Council unanimously issued a presidential statement that condemned North Korea for the attempted launch and decided to further expand and tighten sanctions against North Korea.

North Korea's economy also 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.” Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. 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 recovered to a significant extent since 2008, there has been significant volatility in the KOSPI commencing in the second half of 2011, particularly following the downgrading by Standard & Poor’s Rating Services of the long-term sovereign credit rating of the United States to “AA+” from “AAA” in August 2011 and in light of the financial difficulties affecting many other governments worldwide, in particular Greece, Spain, Italy and other countries in Europe. 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 3.6% in 2009, increased to 3.7% in 2010 but decreased to 3.4% in 2011. 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 ₩37,250 per share (and US\$29.95 per ADS), pursuant to a rights offering to our existing shareholders. In July 2011, Kookmin Bank, our wholly-owned subsidiary, sold 34,966,962 shares of our common stock in a block sale. 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 addition, our major stockholders, the Korean National Pension Service and ING Bank N.V. held approximately 6.86% and 5.02%, respectively, of our total issued common stock as of December 31, 2011, 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 carrying amount 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 depository refuses to do so on their behalf. Our deposit agreement does not require the depository 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 depositary 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 1,975.4 on April 27, 2012. 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 ₩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, 2011, ING Groep N.V. beneficially owned 5.02% 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."

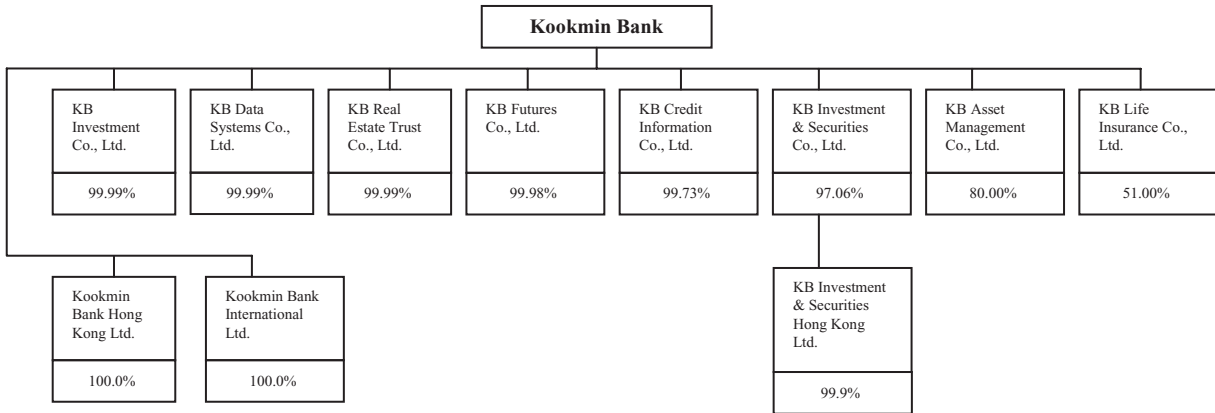
The Merger of the Former Kookmin Bank and H&CB

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 ₩67,399 billion, its total deposits were ₩51,456 billion, its total liabilities were ₩64,537 billion and it had stockholders' equity of ₩2,849 billion. As required by U.S. GAAP, we recognized H&CB's total assets and liabilities at their estimated fair values of ₩68,329 billion and ₩64,840 billion, respectively. These amounts reflect the recognition of ₩562 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed.

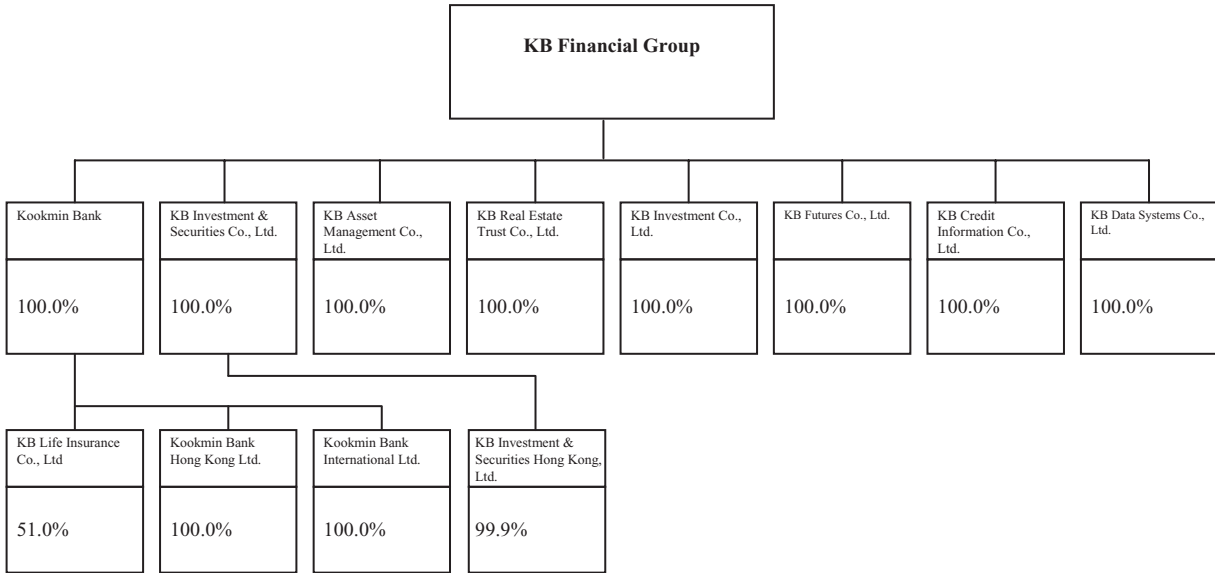
The Establishment of KB Financial Group

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 ₩5,000 per share. Holders of Kookmin Bank ADSs and global depository shares, each of which represented one share of Kookmin Bank common stock, received one of our ADSs for every ADS or global depository 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 data 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.

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 ₩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, all of which it subsequently sold.

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, 2011, we had consolidated total assets of ₩278 trillion, consolidated total deposits of ₩190 trillion and consolidated stockholders' equity of ₩23 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 1,165 branches as of December 31, 2011, 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, 2011, we had a customer base of approximately 29.3 million retail customers, which represented over one-half of the Korean population.

The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2011 retail loans and credit card loans and receivables accounted for 54.0% of our total loan portfolio:

	As of December 31,			
	2010		2011	
	(in billions of Won, except percentages)			
Retail				
Mortgage and home equity ⁽¹⁾	₩ 71,715	35.7%	₩ 75,580	35.1%
Other consumer ⁽²⁾	27,281	13.5	28,275	13.1
Total retail	98,996	49.2	103,855	48.2
Credit card	12,413	6.2	12,421	5.8
Corporate	88,275	43.8	97,239	45.1
Foreign	1,693	0.8	2,040	0.9
Total loans	<u>₩201,377</u>	<u>100.0%</u>	<u>₩215,555</u>	<u>100.0%</u>

-
- (1) Includes ₩1,022 billion and ₩991 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2010 and 2011, respectively.
- (2) Includes ₩8,603 billion and ₩8,622 billion of overdraft loans as of December 31, 2010 and 2011, respectively.

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

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

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

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. 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. As of December 31, 2011, we had approximately 10.8 million holders of KB Kookmin Card.

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, 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 one of the largest branch networks in Korea. In short, we aim to offer our customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific financial needs, including in investment banking, 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 and increasing market share in the corporate financial services market

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

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

Strengthening internal risk management capabilities

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

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

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

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

Retail Banking

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

Lending Activities

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

	As of December 31,			
	2010		2011	
	(in billions of Won, except percentages)			
Retail:				
Mortgage and home equity loans	₩71,715	72.4%	₩ 75,580	72.8%
Other consumer loans ⁽¹⁾	27,281	27.6	28,275	27.2
Total	₩98,996	100.0%	₩103,855	100.0%

⁽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. As of December 31, 2011, we had ₩23,064 billion of amortizing home equity loans, representing 76.7% of our total home equity loans, and ₩6,996 billion of non-amortizing home equity loans, representing 23.3% of our total home equity loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2011, 74.9% of our mortgage loans were secured by residential property which is the subject of the loan, 11.3% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 13.8% 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, 2011, 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.

The following table sets forth our unsecured and secured mortgage loans and home equity loans as of December 31, 2010 and 2011, based on their loan classification categories under IFRS and our internal guidelines:

As of December 31, 2010								
	Non-impaired			Past due	Impaired			Total
	Not past due		Below normal		Past due up to 89 days	Past due 90 days to 179 days	Past due 180 days or more	
	Outstanding	Good						
(In billions of Won)								
Mortgage								
Secured ⁽¹⁾	₩28,944	₩ 4,249	₩1,031	₩424	₩ 87	₩ 35	₩ 40	₩34,810
Unsecured	4,309	3,056	536	249	19	102	242	8,513
Home Equity								
Secured	23,349	3,827	816	275	67	29	29	28,392
Unsecured	—	—	—	—	—	—	—	—
Total	<u>₩56,602</u>	<u>₩11,132</u>	<u>₩2,383</u>	<u>₩948</u>	<u>₩173</u>	<u>₩166</u>	<u>₩311</u>	<u>₩71,715</u>

As of December 31, 2011								
	Non-impaired			Past due	Impaired			Total
	Not past due		Below normal		Past due up to 89 days	Past due 90 days to 179 days	Past due 180 days or more	
	Outstanding	Good						
(In billions of Won)								
Mortgage								
Secured ⁽¹⁾	₩33,606	₩4,205	₩ 663	₩ 650	₩ 57	₩ 30	₩ 40	₩39,251
Unsecured	4,297	1,108	265	188	12	74	325	6,269
Home Equity								
Secured	25,420	3,478	623	450	48	20	21	30,060
Unsecured	—	—	—	—	—	—	—	—
Total	<u>₩63,323</u>	<u>₩8,791</u>	<u>₩1,551</u>	<u>₩1,288</u>	<u>₩117</u>	<u>₩124</u>	<u>₩386</u>	<u>₩75,580</u>

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

Our home equity loan portfolio includes loans that are in a second lien position. In addition to the underwriting procedures we perform when we issue home equity loans in general, we perform additional underwriting procedures with respect to home equity loans secured by a second lien to assess and confirm the value and status of any loans secured by security interests on the collateral which would be prior to our security interest under the second lien home equity loan. Under regulations implemented by the Financial Supervisory Service, our home equity loans are subject to maximum loan-to-value ratios (i.e., the ratio of the aggregate principal amount of loans, including first and second lien loans, secured by a particular item of collateral to the appraised value of such collateral) of between 40% and 60%. As such, for home equity loans, we do not lend more than an amount equal to the adjusted collateral value (i.e., the collateral value as discounted by the required loan-to-value ratio) minus the value of any loans secured by security interests on the collateral that are prior to our security interest. Accordingly, in order to ascertain the value of loans secured by security interests on the collateral which would be prior to our security interest and to confirm the status of such loans, we perform additional underwriting procedures including a review of the relevant title and security interest registration documents and bank documents and certificates regarding such loans. In addition, for purposes of calculating debt-to-income ratios applicable to loans secured by certain types of housing under regulations implemented by the Financial Supervisory Service (see “—Supervision and Regulation—Principal Regulations Applicable to Banks—Recent Regulations Relating to Retail Household Loans”), which we apply on a nationwide basis for our home equity loans, we perform additional adjustments in our debt-to-income ratio calculations with respect to second lien home equity loans to account for the value of loans secured by security interests on the collateral that are prior to our security interest.

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

Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods 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, 2011, our three-month, six-month and twelve-month base rates were 3.55%, 3.62% and 3.63%, respectively.

As of December 31, 2011, 93% of our outstanding mortgage and home equity loans were priced based on a floating rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2011, approximately ₩17,224 billion, or 60.9% 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, 2011 was approximately ₩8,622 billion.

In January 2012, we established KB Savings Bank to provide small-loan finance services to retail customers. KB Savings Bank was established in connection with our purchase of the assets of Jeil Savings Bank and assumption of its liabilities pursuant to a purchase and assumption agreement among Jeil Savings Bank, the Korea Deposit Insurance Corporation and us. In connection with such purchase and assumption, we recognized an acquisition of ₩2,546 billion of assets and an assumption of ₩2,654 billion of liabilities and also ₩108 billion of

goodwill. Under the purchase and assumption agreement, we have the right to transfer to the Korea Deposit Insurance Corporation a portion of the assets we purchased and related liabilities we assumed, subject to certain conditions, by May 2012. See Note 44 of the notes to our consolidated financial statements included elsewhere in this annual report.

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, 2011, 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, 2011, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was ₩111,484 billion and ₩119,707 billion as of December 31, 2010 and 2011, respectively, which constituted 62.0% and 62.9%, 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 30.1% of our total deposits as of December 31, 2011 and paid average interest of 0.58% for 2011.
- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to five years, and the term for installment savings deposits ranges from six months to ten years. Retail and corporate time deposits constituted 62.0% of our total deposits as of December 31, 2011 and paid average interest of 3.66% for 2011. Most installment savings deposits offer fixed interest rates.
- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of ₩5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit.
- *Foreign currency deposits*, which 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 ₩2 million to ₩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 ₩50,000 to ₩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.

We operate a “priority customer” program called KB Star Club through four of our subsidiaries: Kookmin Bank, KB Investment & Securities, KB Life Insurance and KB Kookmin Card. We select and classify KB Star Club customers based on their transaction history with the four subsidiaries and provide such customers with preferential treatment in various areas, including interest rates and transaction fees, depending upon how they are classified. As of December 31, 2011, we had over 4.7 million KB Star Club customers, representing approximately 16% of our total retail customer base of approximately 29.3 million retail customers. In 2011, on an average balance basis, our KB Star Club customers held approximately 90% 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 January 31, 2012, we operated 23 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 ₩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 ₩122 billion for 2011.

Credit Cards

Credit cards are another of our core retail products. We issue most of our credit cards under the “KB Kookmin 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, on a non-consolidated basis, as of the dates and for the periods indicated:

	As of and for the Year Ended December 31,	
	2010	2011
	(in billions of Won, except number of holders, accounts and percentages)	
Number of credit cardholders (at year end) (thousands)		
General accounts	10,169	10,364
Corporate accounts	341	407
Total	<u>10,510</u>	<u>10,771</u>
Number of merchants (at year end) (thousands)	2,114	2,265
Active ratio (at year end) ⁽¹⁾	74.0%	77.4%
Credit card fees		
Merchant fees ⁽²⁾	₩ 1,306	₩ 1,441
Installment and cash advance fees	629	648
Annual membership fees	51	51
Other fees	519	566
Total	<u>₩ 2,505</u>	<u>₩ 2,706</u>
Charge volume ⁽³⁾		
General purchase	₩48,527	₩46,771
Installment purchase	10,790	11,644
Cash advance	12,262	12,220
Card loan ⁽⁴⁾	4,535	4,306
Total	<u>₩76,114</u>	<u>₩74,941</u>
Outstanding balance (at year end)		
General purchase	₩ 4,684	₩ 4,410
Installment purchase	2,581	2,770
Cash advance	2,224	2,276
Card loan ⁽⁴⁾	2,926	2,982
Total	<u>₩12,415</u>	<u>₩12,438</u>
Average outstanding balances		
General purchase	₩ 4,512	₩ 4,569
Installment purchase	2,457	2,579
Cash advance	2,192	2,238
Card loan ⁽⁴⁾	2,756	2,996
Total	<u>₩11,917</u>	<u>₩12,382</u>
Delinquency ratios (at year end) ⁽⁵⁾		
From 1 month to 3 months	0.73	1.00
From 3 months to 6 months	0.11	0.34
Over 6 months	0.18	0.17
Total	<u>1.02%</u>	<u>1.51%</u>
Non-performing loan ratio	0.31%	0.50%
Write-offs (gross)	₩ 389	₩ 413
Recoveries ⁽⁶⁾	245	204
Net write-offs	<u>₩ 144</u>	<u>₩ 209</u>
Gross write-off ratio ⁽⁷⁾	3.26%	3.34%
Net write-off ratio ⁽⁸⁾	1.21%	1.69%

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- (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 maintenance fees and costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, provision for loan losses, general variable expenses and other fixed costs that are charged to our member merchants. We typically charge our member merchants fees that range from 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 and interest on such a loan can be due either in one payment or in installments after a fixed period.
 - (5) Represents ratio of credit card balances overdue by one month or more to outstanding balance. In line with industry practice, we have restructured a portion of delinquent credit card account balances as loans. As of December 31, 2011, these restructured loans amounted to ₩28 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.
 - (6) Does not include proceeds that we received from sales of our non-performing loans that were written off.
 - (7) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.
 - (8) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit cardholders in Korea are generally required to pay for their purchases within approximately 14 to 44 days of purchase depending on their payment cycle. However, we also offer revolving 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; and
- developing fraud detection and security systems to prevent the misuse of credit cards.

As of December 31, 2011, we had approximately 10.8 million cardholders. Of the credit cards outstanding, approximately 77.4% were active, meaning that they had been used at least once during the previous six months.

Our card revenues consist principally of cash advance fees, merchant fees, credit card installment fees, interest income from credit card loans, annual fees paid by cardholders, interest and fees on late payments and, with respect to revolving cards we offer, interest and fees relating to revolving balances. Cardholders are generally required to pay for their purchases within 14 to 44 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, which ranges from 1.5% to 4.5%.

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 commissions that range from 1.0% to 2.0% of the amounts purchased using a debit card. We also issue “check cards,” which are similar to debit cards except that “check cards” are accepted by all merchants that accept credit cards, and charge merchants commissions that range from 1.0% to 1.9%. 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, 2010 and 2011, we had 227,860 and 234,565 small- and medium-sized enterprise borrowers and 993 and 1,210 large corporate borrowers, respectively, for Won-currency loans. For 2010 and 2011, 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 ₩112 billion and ₩117 billion, respectively. Of our branch network as of December 31, 2011, we had eight branches that primarily handled large corporate banking.

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

	As of December 31,			
	2010		2011	
	(in billions of Won, except percentages)			
Corporate:				
Small- and medium-sized enterprise loans	₩65,132	73.8%	₩68,730	70.7%
Large corporate loans	23,143	26.2	28,509	29.3
Total	₩88,275	100.0%	₩97,239	100.0%

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 ₩61,325 billion as of December 31, 2011, or 32.2% of our total deposits.

Small- and Medium-sized Enterprise Banking

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

We use the term “small- and medium-sized enterprises” as defined in the Small and Medium Industry Basic Act and related regulations. Under the Small and Medium Industry Basic Act and related regulations, an enterprise must meet each of the following criteria in order to meet the definition of a small- and medium-sized enterprise: (i) the number of regular employees must be fewer than 1,000, (ii) total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (iii) paid-in capital at the end of the immediately preceding fiscal year must be less than ₩100 billion, (iv) average annual sales revenue for the most recent three fiscal years must be less than ₩150 billion, (v) the standards as prescribed by the Presidential Decree that are applicable to the enterprise’s primary business must be met and (vi) the standards of management independence as prescribed by the Presidential Decree must be met. Further, beginning in January 2012, a non-profit enterprise with no more than 300 regular employees and annual sales revenue of less than ₩30 billion that satisfies the requirements prescribed in the Small and Medium Industry Basic Act may also qualify as a small- and medium-sized enterprise.

Industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises increased in 2011 and further increased in the first quarter of 2012. 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” 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.”

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, 2011, working capital loans and facilities loans accounted for 67.1% and 32.9%, respectively, of our total small- and medium-sized enterprise loans. December 31, 2011, we had over 234,500 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, 2011, secured loans and guaranteed loans accounted for, in the aggregate, 75.3% of our small- and medium-sized enterprise loans. Among the secured loans, 92.3% were secured by real estate and 7.7% 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 15 years.

When evaluating the extension of working capital loans, we review the corporate customer’s creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time deposits that the borrower has with us as collateral, and may require additional collateral. We receive fees in relation to certain 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 five years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

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

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

Pricing

We establish the price for our corporate loan products based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system, which is a periodic floating rate system that takes into account the current market interest rate. As of December 31, 2011, the Market Opportunity Rate was 3.55% for three months, 3.62% for six months and 3.63% 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.

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, 2011, working capital loans and facilities loans accounted for 81.2% and 18.8%, respectively, of our total large corporate loans. We also offer mortgage loans to large corporate clients who build or sell single- or multi-family housing units, as described above under "—Small- and Medium-sized Enterprise Banking—Lending Activities."

As of December 31, 2011, secured loans and guaranteed loans accounted for, in the aggregate, 10.0% of our large corporate loans. Among the secured loans, 73.4% were secured by real estate and 26.6% 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 15 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, 2011, in terms of our outstanding loan balance, 36.2% of our large corporate loans was extended to borrowers in the manufacturing industry, 22.5% was extended to borrowers in the service industry, and 18.2% was extended to borrowers in the financial institutions 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, 2011, 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, 2010 and 2011, our investment portfolio, which consists primarily of held-to-maturity financial assets and available-for-sale financial assets, and our trading portfolio had a combined total carrying amount of ₩40,926 billion and ₩42,650 billion and represented 15.8% and 15.4% 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, 2010 and 2011, we held debt securities with a total carrying amount of ₩36,571 billion and ₩37,966 billion, respectively, of which:

- held-to-maturity debt securities accounted for ₩13,908 billion and ₩13,055 billion, or 38.0% and 34.4%, respectively;
- available-for-sale debt securities accounted for ₩19,126 billion and ₩19,734 billion, or 52.3% and 52.0%, respectively; and
- debt securities at fair value through profit or loss accounted for ₩3,537 billion and ₩5,177 billion, or 9.7% and 13.6%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2010 and 2011 amounted to:

- ₩6,340 billion and ₩5,436 billion, or 45.6% and 41.6%, respectively, of our held-to-maturity debt securities;

- ₩6,741 billion and ₩5,989 billion, or 35.2% and 30.3%, respectively, of our available-for-sale debt securities; and
- ₩743 billion and ₩1,508 billion, or 21.0% and 29.1%, respectively, of our debt securities at fair value through profit or loss.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market. As of December 31, 2010 and 2011:

- equity securities in our available-for-sale portfolio had a carrying amount of ₩3,156 billion and ₩2,643 billion, or 14.2% and 11.8% of our available-for-sale portfolio, respectively; and
- equity securities in our trading portfolio had a carrying amount of ₩461 billion and ₩546 billion, or 11.5% and 8.6% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes derivative instruments. See “—Derivatives Trading.”

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

	As of December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
(in billions of Won)				
Available-for-sale financial assets:				
Debt securities				
Korean treasury securities and government agencies	₩ 6,649	₩ 96	₩ 4	₩ 6,741
Financial institutions ⁽¹⁾	5,735	29	5	5,759
Corporate ⁽²⁾	4,501	90	5	4,586
Asset-backed securities	1,822	9	—	1,831
Others	208	1	—	209
Subtotal	18,915	225	14	19,126
Equity securities	2,254	904	2	3,156
Total available-for-sale financial assets	<u>₩21,169</u>	<u>₩1,129</u>	<u>₩ 16</u>	<u>₩22,282</u>
Held-to-maturity financial assets:				
Korean treasury securities and government agencies	₩ 6,340	₩ 191	₩ 4	₩ 6,527
Financial institutions ⁽³⁾	1,216	45	—	1,261
Corporate ⁽⁴⁾	5,960	200	5	6,155
Asset-backed securities	392	6	1	397
Total held-to-maturity financial assets	<u>₩13,908</u>	<u>₩ 442</u>	<u>₩ 10</u>	<u>₩14,340</u>

	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury securities and government agencies	₩ 5,928	₩ 62	₩ 1	₩ 5,989
Financial institutions ⁽¹⁾	6,413	20	1	6,432
Corporate ⁽²⁾	5,277	99	1	5,375
Asset-backed securities	1,762	1	6	1,757
Others	180	1	—	181
Subtotal	19,560	183	9	19,734
Equity securities	2,193	616	166	2,643
Total available-for-sale financial assets	<u>₩21,753</u>	<u>₩799</u>	<u>₩175</u>	<u>₩22,377</u>
Held-to-maturity financial assets:				
Korean treasury securities and government agencies	₩ 5,436	₩240	₩—	₩ 5,676
Financial institutions ⁽³⁾	1,125	30	—	1,155
Corporate ⁽⁴⁾	6,155	235	—	6,390
Asset-backed securities	339	2	—	341
Total held-to-maturity financial assets	<u>₩13,055</u>	<u>₩507</u>	<u>₩—</u>	<u>₩13,562</u>

⁽¹⁾ 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 ₩3,206 billion as of December 31, 2010 and ₩3,601 billion as of December 31, 2011. These financial institutions are controlled by the Korean government.

⁽²⁾ Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of ₩383 billion as of December 31, 2010 and ₩344 billion as of December 31, 2011.

⁽³⁾ 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 ₩465 billion as of December 31, 2010 and ₩405 billion as of December 31, 2011. These financial institutions are controlled by the Korean government.

⁽⁴⁾ Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of ₩463 billion as of December 31, 2010 and ₩483 billion as of December 31, 2011.

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 ₩163,959 billion in 2010 and to ₩174,358 billion in 2011. Our net trading revenue from derivatives for the year ended December 31, 2010 and 2011 was ₩570 billion and ₩906 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, forwards and options relating to foreign exchange risks; and
- stock price index options linked to the KOSPI index.

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

The following shows the estimated fair value of our derivatives as of December 31, 2010 and 2011:

	As of December 31,			
	2010		2011	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)			
Foreign exchange derivatives ⁽¹⁾	₩1,821	₩1,330	₩1,450	₩1,087
Interest rate derivatives ⁽¹⁾	726	735	796	737
Equity derivatives	43	143	200	220
Credit derivatives	2	—	—	—
Commodity derivatives	—	—	1	—
Others ⁽¹⁾	3	28	2	15
Total	<u>₩2,595</u>	<u>₩2,236</u>	<u>₩2,449</u>	<u>₩2,059</u>

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

The following table shows certain information related to our derivatives designated at fair value hedges for the years ended December 31, 2010 and 2011:

	Year Ended December 31,					
	2010			2011		
	Derivatives	Hedged Items	Hedge Ineffectiveness	Derivatives	Hedged Items	Hedge Ineffectiveness
	(in billions of Won)					
Foreign exchange derivatives	₩(26)	₩ 28	₩ 2	₩ 67	₩(48)	₩ 19
Interest rate derivatives	121	(107)	14	23	(19)	4
Other derivatives	8	(8)	—	19	(18)	1
Total	<u>₩103</u>	<u>₩ (87)</u>	<u>₩ 16</u>	<u>₩109</u>	<u>₩(85)</u>	<u>₩ 24</u>

The following table shows certain information related to our derivatives designated at cash flow hedges for the years ended December 31, 2010 and 2011:

	Year Ended December 31,					
	2010			2011		
	Derivatives	Effective Portion	Ineffective Portion	Derivatives	Effective Portion	Ineffective Portion
	(in billions of Won)					
Foreign exchange derivatives	₩—	₩ —	₩—	₩ 23	₩ 23	₩—
Interest rate derivatives	—	—	—	(1)	(1)	—
Total	<u>₩—</u>	<u>₩ —</u>	<u>₩—</u>	<u>₩ 22</u>	<u>₩ 22</u>	<u>₩—</u>

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 ₩1,858 billion in 2010 and ₩1,380 billion in 2011, all of which 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, 2011, we had made call loans of ₩3,682 billion and borrowed call money of ₩1,141 billion, compared to ₩921 billion and ₩605 billion, respectively, as of December 31, 2010.

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 2011, we generated investment banking revenue of ₩578 billion, consisting of ₩49 billion of interest income and ₩529 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 ₩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 are continuing our efforts to increase our fee income and diversify our investment banking operations by utilizing 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,	
	2010	2011
	(in millions of US\$)	
Total foreign currency assets	US\$13,185	US\$16,539
Foreign currency borrowings:		
Debts	5,874	8,307
Debentures	3,439	3,409
Total borrowings	<u>US\$ 9,313</u>	<u>US\$11,716</u>

The table below sets forth our overseas subsidiaries, branches and representative office currently in operation as of December 31, 2011:

<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
Kookmin Bank, Ho Chi Minh Branch	Vietnam
Representative Office	
Kookmin Bank, Hanoi Representative Office	Vietnam

⁽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 ₩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 December 31, 2011, we held 29.6% of the outstanding common shares of JSC Bank CenterCredit. Our investment in JSC Bank CenterCredit is accounted for under the equity method from the initial acquisition date and we applied the purchase method to account for each acquisition.

In May 2009, we acquired 132,600 common shares of Khmer Union Bank, a Cambodian bank, for approximately ₩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 December 31, 2011, we held 53.2% of the outstanding common shares of Kookmin Bank Cambodia PLC. We applied the purchase method to account for the initial acquisition of Kookmin Bank Cambodia PLC in May 2009. The subsequent acquisition in December 2010 was accounted for as an equity transaction.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

We act as a trustee for 58 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 125 financial institutions and as fund administrator for 62 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, 2011, our fee income from our trustee and custodian services was ₩24 billion and revenue collected as a result of administration of the underlying investments was ₩5 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 2011, 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 10% 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, 2011, the total balance of our money trusts was ₩18,196 billion (as calculated in accordance with Statement of Korea Accounting Standard No. 5004, *Trust Accounts*, and the Enforcement Regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act, which we refer to as an “SKAS basis”). As for unspecified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated. Under IFRS, we consolidate trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest, while we do not consolidate those trust accounts for which we guarantee only the repayment of the principal amount.

	As of December 31,	
	2010	2011
	(in billions of Won)	
Principal and interest guaranteed trusts ⁽¹⁾	₩ 0.2	₩ 0.2
Principal guaranteed trusts ⁽¹⁾	2,954	2,892
Performance trusts ⁽¹⁾⁽²⁾	10,571	15,304
Total	<u>₩13,525</u>	<u>₩18,196</u>

⁽¹⁾ Calculated on an SKAS basis.

⁽²⁾ Trusts which are primarily non-guaranteed.

The balance of our money trusts increased 34.5% between December 31, 2010 and December 31, 2011. As of December 31, 2011, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2011, on an SKAS basis, our trust accounts had invested in securities in the aggregate amount of ₩11,123 billion, of which ₩9,554 billion was debt securities and derivative-linked securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities, derivative-linked securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2011, on an SKAS basis, our trust accounts had made loans in the principal amount of ₩216 billion (excluding loans from the trust accounts to our banking accounts of ₩870 billion), which accounted for 1.1% 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, 2011, substantially all loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment license. On an SKAS basis, as of December 31, 2011, equity securities in our money trust accounts amounted to ₩1,569 billion, which accounted for 8.4% of our total money trust assets. Of this amount, ₩1,530 billion was from specified money trusts and ₩39 billion was from unspecified money trusts.

We continue to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On an SKAS basis, as of December 31, 2011, the balance of the money trusts for which we guaranteed the principal was ₩2,892 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 2010 and 2011, we made no payment from our banking accounts to cover shortfalls in our guaranteed trusts. On an SKAS basis, we derived trust fees with regard to trust account management services (including those fees related to property trust management services) of ₩103 billion in 2010 and ₩122 billion in 2011.

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 2011, our property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. On an SKAS basis, as of December 31, 2011, the aggregate balance of our property trusts decreased to ₩1,292 billion, compared to ₩2,646 billion as of December 31, 2010.

Under IFRS, the property trusts are not consolidated within our 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, 2011, KB Asset Management had ₩20,736 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 2011, we received total fees of ₩172 billion for managing the National Housing Fund (of which ₩137 billion related to accrued but previously unpaid fees for the period from January 2007 to June 2010), compared to ₩42 billion in 2010.

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 61 different products through our branch network. These products are composed of 39 types of life insurance policies such as annuities, savings insurance and variable life insurance, and 22 types of non-life insurance products. In 2011, our commission income from our bancassurance business amounted to ₩163 billion.

Distribution Channels

Banking Branch Network

As of December 31, 2011, Kookmin Bank operated a network of 1,165 branches and sub-branches in Korea, which was one of the largest branch networks among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 37% 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, 2011:

<u>Area</u>	<u>Number of Branches</u>	<u>Percentage</u>
Seoul	436	37.4%
Six largest cities (other than Seoul)	274	23.5
Other	455	39.1
Total	<u>1,165</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, 2011, 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, 2011, we had 9,513 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:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Number of transactions (millions)	611	688
Fee revenue (in billions of Won)	₩ 76	₩ 74

Other Distribution Channels

The following table sets forth information, 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:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Internet banking:		
Number of users ⁽¹⁾	10,924,849	12,262,689
Number of transaction (thousands)	3,061,468	3,517,163
Fee revenue (in millions of Won)	₩ 23,287	₩ 27,715
Phone banking:		
Number of users ⁽²⁾	4,353,808	4,607,803
Number of transaction (thousands)	299,163	250,265
Fee revenue (in millions of Won)	₩ 11,605	₩ 12,284

⁽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, KT and LG U+, 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, 2011, we provided cash management services to over 1,650 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. 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, 2011. 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 acquisition of a controlling interest in Korea Exchange Bank in February 2012. 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 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.

In 2011, we launched a mobile weblink to provide online banking services for smartphone users. In addition, we implemented virtual storage technology for our server systems to achieve a more flexible and cost-effective information storage capability.

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 2011, we spent approximately ₩399 billion for our IT systems, including expenses related to the construction of new IT systems, implementation of hardware and software technologies and other new systems. As of December 31, 2011, we employed a total of approximately 774 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. Except as otherwise indicated, (i) amounts as of and for the years ended December 31, 2010 and

2011 are presented on a consolidated basis under IFRS, and (ii) amounts as of and for the years ended December 31, 2007, 2008 and 2009 are presented on a consolidated basis under U.S. GAAP and are not comparable to information prepared in accordance with IFRS.

Loan Portfolio

As of December 31, 2011, our total loan portfolio was ₩215,555 billion compared to ₩201,377 billion at December 31, 2010. As of December 31, 2011, 93.2% of our total loans were Won-denominated loans.

Loan Types

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

	As of December 31,	
	2010	2011
	(in billions of Won)	
Domestic:		
Corporate		
Small- and medium-sized enterprise	₩ 65,132	₩ 68,730
Large corporate ⁽¹⁾	23,143	28,509
Retail		
Mortgage and home equity	71,715	75,580
Other consumer	27,281	28,275
Credit cards	12,413	12,421
Total domestic	199,684	213,515
Foreign:	1,693	2,040
Total gross loans	<u>₩201,377</u>	<u>₩215,555</u>

⁽¹⁾ Large corporate loans include ₩53 billion and ₩35 billion of loans to the Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2010 and 2011, respectively.

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

	As of December 31,		
	2007	2008	2009
	(in billions of Won)		
Domestic:			
Corporate			
Commercial and industrial ⁽¹⁾	₩ 60,945	₩ 75,140	₩ 74,611
Construction	8,843	10,052	8,097
Other corporate	1,797	2,951	2,178
Retail			
Mortgage and home equity	65,819	69,924	70,678
Other consumer	23,020	27,592	26,949
Credit cards	10,429	11,523	11,368
Total domestic	170,853	197,182	193,881
Foreign:	1,336	2,455	2,344
Total gross loans	<u>₩172,189</u>	<u>₩199,637</u>	<u>₩196,225</u>

⁽¹⁾ Commercial and industrial loans include ₩314 billion, ₩19 billion and ₩29 billion of loans to the Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2007, 2008 and 2009, 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, 2011, our 20 largest exposures totaled ₩13,059 billion and accounted for 4.9% of our total exposures. The following table sets forth, as of December 31, 2011, our total exposures to these top 20 borrowers or issuers:

Company ⁽¹⁾	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified As Impaired Loans
	Won Currency	Foreign Currency					
	(in billions of Won)						
Hyundai Heavy Industries	₩ —	₩ 82	₩ 2	₩ 10	₩1,679	₩ 1,773	₩—
Samsung Heavy Industries	100	—	—	—	1,347	1,447	—
Hyundai Steel Company	381	373	—	51	58	863	—
POSCO	—	21	613	155	—	789	—
Woori Bank	70	145	—	499	—	714	—
GS-Caltex Corporation	—	468	—	110	108	686	—
LG Electronics	533	11	2	138	—	684	—
Daewoo International Corporation	—	302	—	20	260	582	—
SPP Shipbuilding	75	—	—	—	471	546	—
Shinhan Bank	—	17	—	520	—	537	—
Shinhan Financial Group	—	—	—	532	—	532	—
Daewoo Shipbuilding & Marine Engineering	—	82	—	—	423	505	—
Korea Exchange Bank	—	306	3	168	—	477	—
Bank of China	—	450	—	—	—	450	—
Hyundai Capital Services	390	—	—	57	—	447	—
Hyundai Motors	—	440	5	—	—	445	—
SK Networks	265	97	—	—	73	435	—
Korea Securities Corporation	—	300	18	90	—	408	—
LS-Nikko Copper	—	174	—	—	200	374	—
Bank Center Credit	—	—	365	—	—	365	—
Total	₩1,814	₩3,268	₩1,008	₩2,350	₩4,619	₩13,059	₩—

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

As of December 31, 2011, 13 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, 2011, 8.5% 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, 2011, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans		Equity Securities ⁽¹⁾	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency					
	(in billions of Won)						
Samsung ⁽¹⁾	₩ 618	₩ 417	₩ 106	₩ 296	₩1,592	₩ 3,029	₩—
Hyundai Motors ⁽²⁾	964	1,388	6	108	340	2,806	—
Hyundai Heavy Industries ⁽³⁾	—	235	104	20	1,917	2,276	—
LG ⁽⁴⁾	1,144	443	9	270	50	1,916	—
SK ⁽⁵⁾	430	438	243	173	285	1,569	—
POSCO ⁽⁶⁾	99	344	613	214	262	1,532	—
GS ⁽⁷⁾	106	520	—	58	329	1,013	—
Lotte ⁽⁸⁾	327	59	—	361	138	885	—
Hanwha ⁽⁹⁾	624	48	103	26	17	818	—
LS ⁽¹⁰⁾	33	258	—	141	351	783	—
Total	₩4,345	₩4,150	₩1,184	₩1,667	₩5,281	₩16,627	₩—

⁽¹⁾ Includes principally Samsung Heavy Industries, Samsung Electronics and Samsung Electro-Mechanics.

⁽²⁾ Includes principally Hyundai Steel Company, Hyundai Motor Company and Hyundai Capital Services.

⁽³⁾ Includes principally Hyundai Heavy Industries, Hyundai Oil Refinery and Hyundai Mipo Dockyard.

⁽⁴⁾ Includes principally LG Electronics, LG Display and LG Innotek.

⁽⁵⁾ Includes principally SK Networks Company, SK Energy and SK Engineering & Construction.

⁽⁶⁾ Includes principally POSCO, Daewoo International Corporation and POSCO Power Corporation.

⁽⁷⁾ Includes principally GS Caltex Corporation, GS Engineering & Construction Corporation and GS Global Corporation.

⁽⁸⁾ Includes principally Lotte Card, Lotte Engineering & Construction and Lotte Trading.

⁽⁹⁾ Includes principally Hanwha Engineering & Construction Corporation, Hanwha Corporation and Hanwha Galleria.

⁽¹⁰⁾ Includes principally LS-Nikko Copper, E1 Company and LS Cable.

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, 2011:

Industry	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won)	
Financial institutions	₩ 5,839	5.9%
Manufacturing	31,763	32.0
Service	36,306	36.6
Public sector	311	0.3
Others	24,989	25.2
Total	₩99,208	100.0%

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 10 years.

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2011. The amounts disclosed are before deduction of allowances for loan losses:

	1 Year or Less	Over 1 year But Not More Than 5 Years	Over 5 Years	Total
	(in billions of Won)			
Domestic:				
Corporate				
Small- and medium-sized enterprises	₩ 53,051	₩11,718	₩ 3,961	₩ 68,730
Large corporate	19,860	6,500	2,149	28,509
Total corporate	72,911	18,218	6,110	97,239
Retail				
Mortgage and home equity	9,539	7,875	58,166	75,580
Other consumer	19,914	6,005	2,356	28,275
Total retail	29,453	13,880	60,522	103,855
Credit cards	11,168	1,145	108	12,421
Total domestic	113,532	33,243	66,740	213,515
Foreign:	1,385	565	90	2,040
Total gross loans	<u>₩114,917</u>	<u>₩33,808</u>	<u>₩66,830</u>	<u>₩215,555</u>

Interest Rate Sensitivity

The following table shows, as of December 31, 2011, the total amount of loans due after one year, which have fixed interest rates and variable or adjustable interest rates:

	As of December 31, 2011
	(in billions of Won)
Fixed rate ⁽¹⁾	₩ 12,378
Variable or adjustable rates ⁽²⁾	88,260
Total gross loans	<u>₩100,638</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.

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

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

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2011, ₩1,087 billion or 0.4% of our total loans and debt securities were in workout, restructuring or rehabilitation. This included ₩597 billion of loans to and debt securities of large corporate borrowers and ₩490 billion of loans to and debt securities of small- and medium-sized enterprises.

The following table shows, as of December 31, 2011, our ten largest exposures that were in workout, restructuring or rehabilitation:

Company	Loans					Total Exposures	Amounts Classified As Impaired Loans
	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees And Acceptances		
	(in billions of Won)						
Kumho Industrial Co., Ltd.	₩127	₩—	₩ 32	₩—	₩ 9	₩168	₩ 2
Kumho Tire Co., Inc.	40	42	66	—	2	150	—
Dongmoon Construction Co., Ltd.	66	—	—	—	—	66	66
Shinil Engineering Co., Ltd.	57	—	—	—	—	57	57
Hanil Engineering&Construction Co., Ltd.	28	—	2	—	23	53	28
Dongil Construction Co., Ltd.	45	—	—	—	—	45	45
Samho international Co., Ltd.	40	—	—	—	—	40	40
Hyundai Cement Co., Ltd.	26	3	—	—	—	29	28
Woorim Co., Ltd.	26	—	—	—	2	28	26
Shindo Engineering Co., Ltd.	26	—	—	—	—	26	26
Total	<u>₩481</u>	<u>₩ 45</u>	<u>₩100</u>	<u>₩—</u>	<u>₩ 36</u>	<u>₩662</u>	<u>₩318</u>

Provisioning Policy

Under IFRS, we establish allowances for loan losses with respect to loans to absorb such losses. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determine that no objective evidence of impairment exists for a loan, we include such loan in a group of loans with similar credit risk characteristics and assess them collectively for impairment regardless of whether such

loan is significant. For individually significant loans, allowances for loan losses are recorded if objective evidence of impairment exists as a result of one or more events that occurred after initial recognition. For collectively assessed loans, we base the level of allowances for loan losses on our evaluation of the risk characteristics of such loans, taking into account such factors as historical loss experience, the financial condition of the borrowers and current economic conditions. If additions or changes to the allowances for loan losses are required, then we record a provision for loan losses, which is included in impairment losses on credit loss and treated as a charge against current income. Credit exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowances for loan losses. See “Item 5A. Operating Results—Critical Accounting Policies—Impairment of Loans and Allowances for Loan Losses.”

We consider the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;
- loans to corporate borrowers that are rated C or D according to Kookmin Bank’s internal credit ratings for large companies or small-and medium-sized enterprises;
- loans to corporate borrowers that are rated CC or below according to Kookmin Bank’s internal credit ratings for large companies or small-and medium-sized enterprises as a result of being subject to workout, court receivership, court mediation or similar proceedings; and
- restructured loans.

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

In the case of consumer loans, we established loan loss allowances under U.S. GAAP based on historical performance, previous loan loss history and charge-off information. Additional factors that management considered when establishing reserves for homogeneous pools of consumer loans included, but were not limited to, economic events, delinquencies and changes in underwriting and credit monitoring policies.

The actual amount of incurred loan 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 loan losses, which include detailed periodic assessments by senior management of both individual loans and loan portfolios and the use of models to estimate incurred loan losses in those portfolios.

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

Loan Aging Schedule

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

As of December 31,	Normal Amount	%	Amount Past Due 1-3 Months		Amount Past Due 3-6 Months		Amount Past Due more Than 6 Months		Total Amount
				%		%		%	
(in billions of Won, except percentages)									
2010	₩199,044	98.8%	₩721	0.4%	₩608	0.3%	₩1,004	0.5%	₩201,377
2011	213,548	99.1	827	0.4	333	0.1	847	0.4	215,555

The following table shows our loan aging schedule (excluding accrued interest) as of December 31, 2009 under U.S. GAAP:

As of December 31,	Normal Amount	%	Amount Past Due 1-3 Months		Amount Past Due 3-6 Months		Amount Past Due more Than 6 Months		Total Amount
				%		%		%	
(in billions of Won, except percentages)									
2009	₩194,371	99.1%	₩488	0.2%	₩315	0.2%	₩1,051	0.5%	₩196,225

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 90 days. 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, 2011, we would have recorded gross interest income of ₩336 billion compared to ₩328 billion for the year ended December 31, 2010, in each case under IFRS, 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 profit for the years ended December 31, 2010 and 2011 under IFRS was ₩194 billion and ₩192 billion, respectively.

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

	As of December 31,	
	2010	2011
	(in billions of Won)	
Loans accounted for on a non-accrual basis		
Corporate	₩2,466	₩2,021
Consumer	1,012	1,200
Sub-total	<u>3,478</u>	<u>3,221</u>
Accruing loans which are contractually past due 90 days or more as to principal or interest		
Corporate	5	4
Consumer	28	45
Sub-total	<u>33</u>	<u>49</u>
Total	<u>₩3,511</u>	<u>₩3,270</u>

Under U.S. GAAP, we generally placed loans on non-accrual status when payments of interest and/or principal became past due by one day. For the year ended December 31, 2009, we would have recorded gross interest income of ₩278 billion on loans accounted for on a non-accrual basis under U.S. GAAP in accordance with the foregoing throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. Under U.S. GAAP, the amount of interest income on those loans that was included in our net income for the year ended December 31, 2009 was ₩193 billion.

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

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

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

Troubled Debt Restructurings

The following table presents, as of the dates indicated, our loans which are “troubled debt restructurings” as defined in Accounting Standards Codification 310-40. 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,				
	2007	2008	2009	2010	2011
	(in billions of Won)				
Loans classified as “troubled debt restructurings”	₩271	₩187	₩116	₩573	₩412

For 2011, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩48 billion, out of which ₩31 billion was reflected as interest income during 2011.

Potential Problem Loans

As of December 31, 2011, we had ₩3,833 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, 2007, 2008, 2009, 2010 and 2011, we did not have any debt securities received in connection with troubled debt restructurings on which interest was past due.

Non-Performing Loans

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

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

	As of December 31,	
	2010	2011
	(in billions of Won, except percentages)	
Total non-performing loans	₩1,516	₩1,117
As a percentage of total loans	0.8%	0.5%

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

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

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 under IFRS:

	As of December 31,			
	2010		2011	
	Amount	%	Amount	%
Domestic:				
Corporate				
Small- and medium sized enterprise	₩ 686	45.2%	₩ 373	33.4%
Large corporate	145	9.6	21	1.9
Total corporate	831	54.8	394	35.3
Retail				
Mortgage and home equity	478	31.5	510	45.7
Other consumer	163	10.8	132	11.8
Total retail	641	42.3	642	57.5
Credit cards	39	2.6	62	5.6
Total domestic	1,511	99.7	1,098	98.4
Foreign:	5	0.3	19	1.6
Total non-performing loans	₩1,516	100.0%	₩1,117	100.0%

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

	As of December 31,					
	2007		2008		2009	
	Amount	%	Amount	%	Amount	%
Domestic:						
Corporate						
Commercial and industrial	₩ 822	61.4%	₩ 556	52.1%	₩ 899	65.8%
Construction	88	6.6	161	15.1	125	9.2
Lease financing	—	—	—	—	—	—
Other corporate	3	0.2	1	0.1	2	0.2
Total corporate	913	68.2	718	67.3	1,026	75.2
Retail						
Mortgage and home equity	297	22.2	216	20.2	211	15.4
Other consumer	101	7.5	86	8.0	79	5.8
Total retail	398	29.7	302	28.2	290	21.2
Credit cards	27	2.0	29	2.7	23	1.7
Total domestic	1,338	99.9	1,049	98.2	1,339	98.1
Foreign:	1	0.1	19	1.8	26	1.9
Total non-performing loans	₩1,339	100.0%	₩1,068	100.0%	₩1,365	100.0%

Top 20 Non-Performing Loans

As of December 31, 2011, our 20 largest non-performing loans accounted for 16.8% of our total non-performing loan portfolio. The following table shows, as of December 31, 2011, certain information regarding our 20 largest non-performing loans:

	<u>Industry</u>	<u>Gross Principal Outstanding</u>	<u>Allowances for Loan Losses</u>
		(in billions of Won)	
Borrower A	Service	₩ 29	₩ 7
Borrower B	Service	20	2
Borrower C	Other	18	4
Borrower D	Service	13	13
Borrower E	Other	12	—
Borrower F	Manufacturing	10	—
Borrower G	Other	8	6
Borrower H	Service	8	5
Borrower I	Manufacturing	8	1
Borrower J	Service	8	2
Borrower K	Manufacturing	8	1
Borrower L	Service	7	4
Borrower M	Manufacturing	6	6
Borrower N	Manufacturing	6	1
Borrower O	Financial institutions	6	3
Borrower P	Other	5	—
Borrower Q	Manufacturing	4	—
Borrower R	Manufacturing	4	2
Borrower S	Manufacturing	4	3
Borrower T	Other	4	4
Total		<u>₩188</u>	<u>₩ 64</u>

Most of our loans to companies in workout or restructuring were not classified as non-performing as of December 31, 2011 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 (35 days in the case of credit card loans). KB Credit Information has over 570 employees, including legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. In 2009, under U.S. GAAP, the amount recovered was ₩426 billion. In 2010 and 2011, under IFRS, the amount recovered was ₩329 billion and ₩468 billion, respectively.

Methods for resolving non-performing loans include the following:

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

In addition, credit card loans that are in arrears for over 30 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 IFRS as sale transactions.

Pursuant to a memorandum of understanding among the Financial Supervisory Service and seven banks, including Kookmin Bank, a private equity fund was established in June 2011 to acquire approximately ₩1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is United Asset Management Corp. and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, we agreed to make a capital commitment of ₩148 billion and provide a ₩109 billion revolving loan facility to the fund. From June to December 2011, we contributed the entire amount of our capital commitment to the fund in connection with its purchase of ₩148 billion of non-performing loans from us.

Allocation and Analysis of Allowances for Loan Losses under IFRS

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

	As of December 31,			
	2010		2011	
	Amount	%	Amount	%
	(in billions of Won, except percentages)			
Domestic				
Corporate				
Small- and medium-sized enterprise	₩2,028	54.0%	₩1,533	44.4%
Large corporate	863	23.0	910	26.4
Total corporate	<u>2,891</u>	<u>77.0</u>	<u>2,443</u>	<u>70.8</u>
Retail				
Mortgage and home equity	88	2.3	111	3.2
Other consumer	432	11.5	524	15.2
Total retail	<u>520</u>	<u>13.8</u>	<u>635</u>	<u>18.4</u>
Credit cards	328	8.7	350	10.2
Foreign ⁽¹⁾	17	0.5	20	0.6
Total allowances for loan losses	<u>₩3,756</u>	<u>100.0%</u>	<u>₩3,448</u>	<u>100.0%</u>

⁽¹⁾ Consists primarily of loans to corporations.

Our total allowances for loan losses were ₩3,756 billion as of December 31, 2010. During 2011, total allowances for loan losses decreased by ₩308 billion, or 8.2%, to ₩3,448 billion as of December 31, 2011.

The following table analyzes our allowances for loan losses and loan loss experience under IFRS for each of the years indicated:

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(in billions of Won, except percentages)	
Balance at the beginning of the period	₩ 3,269	₩ 3,756
Amounts charged against income	2,464	1,645
Sale	(193)	(240)
Gross charge-offs:		
Domestic:		
Corporate		
Small- and medium-sized enterprise	1,541	1,274
Large corporate	55	204
Retail		
Mortgage and home equity	37	20
Other consumer	237	267
Credit cards	389	413
Foreign:	20	3
Total gross charge-offs	<u>(2,279)</u>	<u>(2,181)</u>
Recoveries:		
Domestic:		
Corporate		
Small-and medium-sized enterprise	133	162
Large corporate	1	6
Retail		
Mortgage and home equity	14	13
Other consumer	114	104
Credit cards	246	204
Foreign:	4	1
Total recoveries	<u>512</u>	<u>490</u>
Net charge-offs	(1,767)	(1,691)
Other charges	(17)	(22)
Balance, at the end of the period	<u>₩ 3,756</u>	<u>₩ 3,448</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.9%	0.8%

Allocation and Analysis of Allowances for Loan Losses under U.S. GAAP

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

	As of December 31,					
	2007		2008		2009	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	₩1,071	35.5%	₩1,707	37.7%	₩2,165	38.1%
Construction	175	5.1	674	5.0	457	4.1
Other corporate	14	1.0	26	1.5	25	1.1
Total corporate	1,260	41.6	2,407	44.2	2,647	43.3
Retail						
Mortgage and home equity	114	38.2	107	35.0	125	36.0
Other consumer	314	13.3	271	13.8	336	13.7
Total retail	428	51.5	378	48.8	461	49.7
Credit cards	165	6.1	213	5.8	202	5.8
Foreign ⁽¹⁾	11	0.8	45	1.2	31	1.2
Total allowances for loan losses	₩1,864	100.0%	₩3,043	100.0%	₩3,341	100.0%

⁽¹⁾ Consists primarily of loans to corporations.

The following table analyzes our allowances for loan losses and loan loss experience under U.S. GAAP for each of the years indicated:

	Year Ended December 31,		
	2007	2008	2009
	(in billions of Won, except percentages)		
Balance at the beginning of the period	₩ 2,468	₩ 1,864	₩ 3,043
Amounts charged against income	109	2,142	2,216
Allowance relating to loans repurchased	1	3	7
Gross charge-offs:			
Domestic:			
Corporate			
Commercial and industrial	580	703	975
Construction	108	140	460
Other corporate	4	5	15
Retail			
Mortgage and home equity	49	63	33
Other consumer	275	279	329
Credit cards	331	375	571
Foreign:	—	—	—
Total gross charge-offs	<u>(1,347)</u>	<u>(1,565)</u>	<u>(2,383)</u>
Recoveries:			
Domestic:			
Corporate			
Commercial and industrial	98	98	54
Construction	21	13	10
Other corporate	1	2	1
Retail			
Mortgage and home equity	16	32	12
Other consumer	196	177	125
Credit cards	301	277	256
Foreign:	—	—	—
Total recoveries	<u>633</u>	<u>599</u>	<u>458</u>
Net charge-offs	<u>(714)</u>	<u>(966)</u>	<u>(1,925)</u>
Balance, at the end of the period	<u>₩ 1,864</u>	<u>₩ 3,043</u>	<u>₩ 3,341</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.4%	0.5%	1.0%

Regulatory Reserve for Credit Losses

If our allowances for credit losses is deemed insufficient for regulatory purposes, we are required to compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within our retained earnings. The level of regulatory reserve for credit losses required to be recorded is equal to the amount by which our allowances for credit losses under IFRS are less than the greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel II and as approved by the Financial Supervisory Service and (y) the required amount of credit loss reserve calculated based on guidelines prescribed by the Financial Services Commission. As of December 31, 2011, our regulatory reserve for credit losses was ₩1,816 billion. See Note 25 of the notes to our consolidated financial statements included elsewhere in this annual report.

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

<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.

<u>Loan classifications</u>	<u>Corporate</u>	<u>Consumer</u>	<u>Credit card balances⁽¹⁾</u>	<u>Credit card loans⁽²⁾</u>
Normal	0.85% or above	1% or above	1.1% or above	2.5% or above
Precautionary	7% or above	10% or above	40% or above	50% or above
Substandard	20% or above	20% or above	60% or above	65% or above
Doubtful	50% or above	55% or above	75% or above	75% or above
Estimated loss	100%	100%	100%	100%

(1) Applicable for credit card balances from general purchases.
(2) Applicable for cash advances, card loans and revolving credit card assets.

Loan Charge-Offs

Basic Principles

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

Loans To Be Charged Off

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

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for 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. For accounting purposes, we recognize charge-offs of corporate loans under IFRS prior to approval from the Financial Supervisory Service.

With respect to credit card balances and unsecured retail loans, we follow a different process to determine which credit card balances and unsecured retail loans should be charged off, based on the length of time those loans or balances are past due. We charge off unsecured retail loans deemed to be uncollectible and credit card balances which have been overdue for four payment cycles or more or which have been deemed to be uncollectible under IFRS.

Treatment of Loans Charged Off

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

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

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 ₩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 ₩500 million of unsecured debt and/or ₩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 ₩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 ₩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, 2012, 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 ₩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 four categories of securities we hold:

<u>Category</u>	<u>Classification</u>
Financial assets held for trading	Financial assets bought and held for trading.
Financial assets designated at fair value through profit and loss	Financial assets which were not bought and held for trading but are otherwise designated as at fair value through profit and loss.
Available-for-sale financial assets	Non-derivative financial assets not classified as held-to-maturity, at fair value through profit and loss or loans and receivables.
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.

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

The following table sets out the definitions of the primary categories of securities we held as of December 31, 2009 under U.S. GAAP:

<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.

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

Carrying Amount and Market Value

The following table sets out the carrying amount and market value of securities in our securities portfolio as of the dates indicated under IFRS:

	As of December 31,			
	2010		2011	
	Carrying Amount	Market Value	Carrying Amount	Market Value
	(in billions of Won)			
Available-for-sale financial assets:				
Equity securities	₩ 3,156	₩ 3,156	₩ 2,643	₩ 2,643
Debt securities				
Korean treasury securities and government agency securities	6,741	6,741	5,989	5,989
Debt securities issued by financial institutions	5,759	5,759	6,432	6,432
Corporate debt securities	4,586	4,586	5,375	5,375
Asset-backed securities	1,831	1,831	1,757	1,757
Others	209	209	181	181
Total available-for-sale	<u>22,282</u>	<u>22,282</u>	<u>22,377</u>	<u>22,377</u>
Held-to-maturity financial assets:				
Debt securities				
Korean treasury securities and government agency securities	6,340	6,527	5,436	5,676
Debt securities issued by financial institutions	1,216	1,261	1,125	1,155
Corporate debt securities	5,960	6,155	6,155	6,390
Asset-backed securities	392	397	339	341
Total held-to-maturity	<u>13,908</u>	<u>14,340</u>	<u>13,055</u>	<u>13,562</u>
Financial assets at fair value through profit or loss:				
Financial assets held for trading				
Equity securities	416	416	412	412
Debt securities				
Korean treasury securities and government agency securities	743	743	1,508	1,508
Debt securities issued by financial institutions	2,107	2,107	2,837	2,837
Corporate debt securities	459	459	586	586
Asset-backed securities	172	172	135	135
Others	56	56	111	111
Others	15	15	28	28
Sub-total	<u>3,968</u>	<u>3,968</u>	<u>5,617</u>	<u>5,617</u>
Financial assets designated at fair value through profit or loss				
Equity securities	46	46	134	134
Debt securities	—	—	—	—
Derivative-linked securities	—	—	575	575
Sub-total	<u>46</u>	<u>46</u>	<u>709</u>	<u>709</u>
Total financial assets at fair value through profit or loss	<u>4,014</u>	<u>4,014</u>	<u>6,326</u>	<u>6,326</u>
Total financial assets	<u>₩40,204</u>	<u>₩40,636</u>	<u>₩41,758</u>	<u>₩42,265</u>

The following table sets out the carrying amount and market value of securities in our securities portfolio as of December 31, 2009 under U.S. GAAP:

	<u>As of December 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>
	(in billions of Won)	
Available-for-sale securities:		
Equity securities	₩ 1,135	₩ 1,135
Debt securities		
Korean treasury securities and government agency securities ..	7,892	7,892
Debt securities issued by financial institutions	6,405	6,405
Corporate debt securities	1,281	1,281
Asset-backed securities	1,998	1,998
Total available-for-sale	<u>18,711</u>	<u>18,711</u>
Held-to-maturity securities:		
Debt securities		
Korean treasury securities and government agency securities ..	8,992	9,064
Debt securities issued by financial institutions	2,995	3,040
Corporate debt securities	380	382
Asset-backed securities	243	246
Total held-to-maturity	<u>12,610</u>	<u>12,732</u>
Trading securities:		
Equity securities	254	254
Debt securities		
Korean treasury securities and government agency securities ..	1,359	1,359
Debt securities issued by financial institutions	2,699	2,699
Corporate debt securities	31	31
Asset-backed securities	117	117
Total trading	<u>4,460</u>	<u>4,460</u>
Total securities	<u>₩35,781</u>	<u>₩35,903</u>

Maturity Analysis

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2011:

	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 financial assets:										
Korean treasury securities and government agencies	₩1,237	4.53%	₩4,139	4.39%	₩ 541	4.39%	₩ 72	4.76%	₩ 5,989	4.42%
Debt securities issued by financial institutions	4,577	3.80	1,760	4.35	95	5.96	—	—	6,432	3.98
Corporate debt securities	1,929	4.62	2,752	4.77	641	5.02	53	5.43	5,375	4.75
Asset-backed securities	295	4.08	286	4.03	—	—	1,176	4.20	1,757	4.15
Others	—	0.05	181	7.00	—	—	—	—	181	7.00
Total	₩8,038	4.12	₩9,118	4.54	₩1,277	4.82	₩1,301	4.28	₩19,734	4.37
Held-to-maturity financial assets:										
Korean treasury securities and government agencies	₩1,278	3.92%	₩2,660	4.36%	₩1,385	5.40%	₩ 113	5.38%	₩ 5,436	4.54%
Debt securities issued by financial institutions	365	5.72	720	5.49	40	4.84	—	—	1,125	5.54
Corporate debt securities	744	5.43	4,442	5.04	929	5.29	40	4.96	6,155	5.12
Asset-backed securities	23	4.00	306	4.43	10	4.37	—	—	339	4.40
Total	₩2,410	4.66	₩8,128	4.83	₩2,364	5.34	₩ 153	5.26	₩13,055	4.90
Financial assets at fair value through profit or loss:										
Financial assets held for trading:										
Korean treasury securities and government agency securities	₩ 454	4.37%	₩ 783	3.62%	₩ 220	4.42%	₩ 51	4.02%	₩ 1,508	3.97%
Debt securities issued by financial institutions	1,660	3.94	1,177	3.69	—	—	—	—	2,837	3.84
Corporate debt securities	445	4.88	131	4.43	10	4.07	—	—	586	4.76
Asset-backed securities	81	5.09	54	4.99	—	—	—	—	135	5.05
Others	111	3.57	—	—	—	—	—	—	111	3.57
Sub-total	₩2,751	4.18	₩2,145	3.74	₩ 230	4.41	₩ 51	4.02	₩ 5,177	4.01
Financial assets designated at fair value through profit or loss	₩ —	—	₩ —	—	₩ —	—	₩ —	—	₩ —	—
Total	₩2,751	4.18	₩2,145	3.74	₩ 230	4.41	₩ 51	4.02	₩ 5,177	4.01

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

Concentrations of Risk

As of December 31, 2011, we held the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10% of our stockholders' equity at such date, which was ₩22,918 billion:

	Carrying Amount	Market Value
(in billions of Won)		
Name of issuer:		
Korean government	₩11,889	₩12,112
Bank of Korea	3,453	3,453
Total	₩15,342	₩15,565

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 borrowings (comprising debentures and debts), short-term borrowings, including borrowings from the Bank of Korea, and call money.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and time deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 81.5% of total funding as of December 31, 2010 and 81.3% of total funding as of December 31, 2011, in each case under IFRS. As of December 31, 2009, customer deposits accounted for 75.9% of our total funding under U.S. GAAP.

Our borrowings consist of issuances of debentures and debt from financial institutions, the Korean government and government-affiliated funds. The majority of our debt is long-term, with maturities ranging from one year to 27 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 under IFRS for the periods indicated:

	2010		2011	
	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid
	(in billions of Won, except percentages)			
Demand deposits:				
Non-interest bearing	₩ 3,348	—	₩ 3,249	—
Interest bearing	48,919	0.43%	53,824	0.58%
Time deposits	112,621	3.60	124,713	3.66
Certificates of deposit	11,044	4.00	1,746	3.89
Average total deposits	<u>₩175,932</u>	<u>2.68%</u>	<u>₩183,532</u>	<u>2.69%</u>

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

The following table shows the average balances of our deposits and the average rates paid on our deposits under U.S. GAAP for 2009:

	2009	
	Average Balance ⁽¹⁾	Average Rate Paid
	(in billions of Won, except percentages)	
Demand deposits:		
Non-interest bearing	₩ 2,936	—
Interest bearing	846	1.18%
Time deposits:		
Certificates	26,423	4.50
Other time deposits	87,721	4.45
Savings deposits	46,277	0.49
Mutual installment deposits ⁽²⁾	3,915	2.99
Average total deposits	<u>₩168,118</u>	<u>3.24%</u>

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

Time Deposits and Certificates of Deposit

The following table presents the remaining maturities of our time deposits and certificates of deposit which had a fixed maturity in excess of ₩100 million as of December 31, 2011:

	<u>Time Deposits</u>	<u>Certificates of Deposit</u>	<u>Total</u>
	(in billions of Won)		
Maturing within three months	₩32,048	₩ 844	₩32,892
After three but within six months	13,402	124	13,526
After six but within 12 months	25,494	406	25,900
After 12 months	1,714	89	1,803
Total	<u>₩72,658</u>	<u>₩1,463</u>	<u>₩74,121</u>

Long-term borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) as of December 31, 2011 was as follows:

	<u>As of December 31, 2011</u>
	(in billions of Won)
Due in 2012	₩10,305
Due in 2013	4,205
Due in 2014	7,713
Due in 2015	426
Due in 2016	2,999
Thereafter	<u>4,417</u>
Gross long-term borrowings	30,065
Fair value adjustments	15
Discount	<u>(29)</u>
Total long-term borrowings, net	<u>₩30,051</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 under IFRS :

	As of and for the Year Ended December 31,	
	2010	2011
(in billions of Won, except percentages)		
Call money:		
Year-end balance	₩ 605	₩ 1,141
Average balance ⁽¹⁾	1,810	2,676
Maximum balance ⁽²⁾	1,959	2,491
Average interest rate ⁽³⁾	1.38%	2.29%
Year-end interest rate	0.40-3.20%	0.15-4.48%
Borrowings from the Bank of Korea: ⁽⁴⁾		
Year-end balance	₩ 931	₩ 651
Average balance ⁽¹⁾	982	777
Maximum balance ⁽²⁾	1,189	920
Average interest rate ⁽³⁾	1.22%	1.44%
Year-end interest rate	1.25%	1.50%
Other short-term borrowings: ⁽⁵⁾		
Year-end balance	₩ 7,856	₩ 12,051
Average balance ⁽¹⁾	9,025	10,565
Maximum balance ⁽²⁾	9,210	12,120
Average interest rate ⁽³⁾	2.01%	2.00%
Year-end interest rate	0.45-7.55%	0.53-5.96%

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

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

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

⁽⁴⁾ Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

⁽⁵⁾ Other short-term borrowings include securities sold under repurchase agreement, 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 ₩1,070 billion as of December 31, 2011.

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) as of and for the year ended December 31, 2009 under the U.S. GAAP:

	As of and for the Year Ended December 31, 2009	
	(in billions of Won, except percentages)	
Call money:		
Year-end balance	₩	1,365
Average balance ⁽¹⁾		3,528
Maximum balance ⁽²⁾		7,541
Average interest rate ⁽³⁾		1.90%
Year-end interest rate		0.20-2.10%
Borrowings from the Bank of Korea: ⁽⁴⁾		
Year-end balance	₩	1,344
Average balance ⁽¹⁾		1,200
Maximum balance ⁽²⁾		1,512
Average interest rate ⁽³⁾		1.25%
Year-end interest rate		1.25%
Other short-term borrowings: ⁽⁵⁾		
Year-end balance	₩	6,832
Average balance ⁽¹⁾		8,805
Maximum balance ⁽²⁾		12,142
Average interest rate ⁽³⁾		3.03%
Year-end interest rate		0.22-7.49%

- ⁽¹⁾ Average balances are based on daily balances for our banking and credit card operations and monthly or quarterly balances for our other operations.
- ⁽²⁾ Maximum balances are based on month-end balances.
- ⁽³⁾ Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
- ⁽⁴⁾ Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
- ⁽⁵⁾ 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.

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 ₩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 a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets);
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days as a percentage of total foreign currency assets of not less than 0% on a non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets);
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month as a percentage of total foreign currency assets of not less than negative 10% on a

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

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

Financial Exposure to Any Individual Customer and Major 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) ₩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) ₩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 ₩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

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

Under the 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), allowances 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 Services Commission 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 Services Commission 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.

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

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 ₩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 39% 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 ₩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 ₩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 ₩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 ₩20 million in the case of a general loan, ₩50 million in the case of a general loan plus a housing loan or ₩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 ₩20 million or general and housing loans of up to ₩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. 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 ₩600 million, and (b) 60%, if the price of such apartment is ₩600 million or lower;
- as to loans secured by apartments with appraisal value of more than ₩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 ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits.

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 October 8, 2011, 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

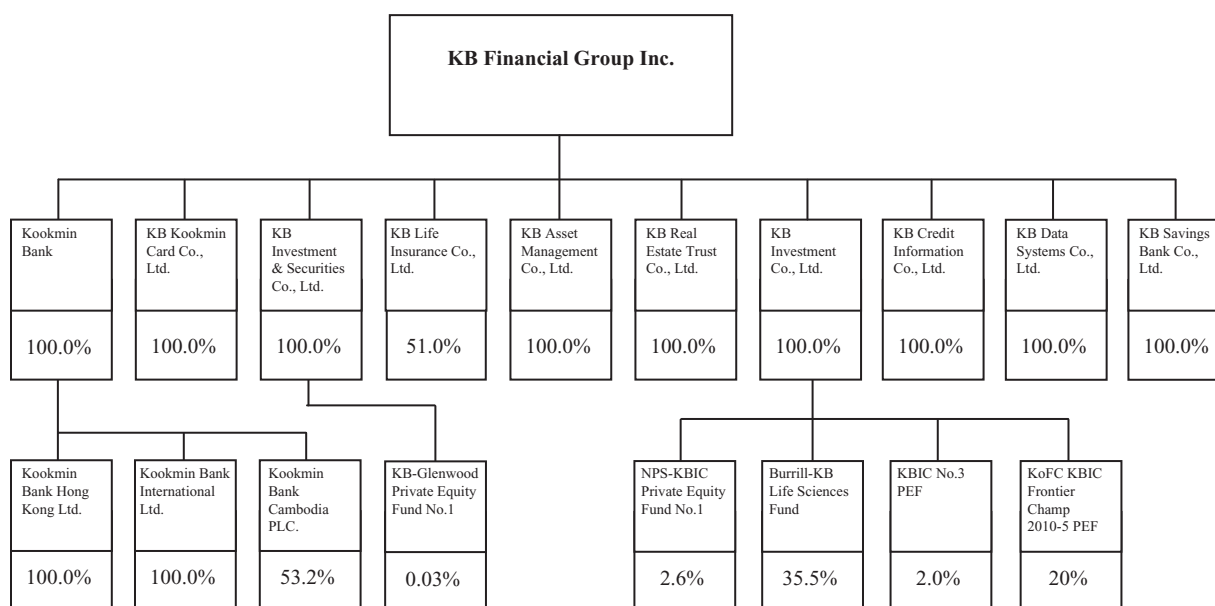
While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. 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 92.4% of our total assets as of December 31, 2011. 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, 2011, including their consolidated total assets, operating revenue, profit (loss) and total equity:

<u>Subsidiary</u>	<u>Total Assets</u>	<u>Operating Revenue</u>	<u>Profit (Loss)</u>	<u>Total Equity</u>
	(in millions of Won)			
Kookmin Bank	₩256,512,260	₩22,274,350	₩2,047,881	₩19,068,405
KB Kookmin Card Co., Ltd.	13,349,351	2,426,030	319,794	2,782,210
KB Investment & Securities Co., Ltd.	3,314,875	787,354	28,169	522,519
KB Life Insurance Co., Ltd.	4,515,809	1,220,799	18,572	354,688
KB Asset Management Co., Ltd.	177,691	83,855	(5,655)	120,079
KB Real Estate Trust Co., Ltd.	251,228	51,564	15,405	144,644
KB Investment Co., Ltd.	498,506	61,574	9,322	116,062
KB Credit Information Co., Ltd.	30,529	54,874	(2,391)	22,460
KB Data Systems Co., Ltd.	30,590	117,467	2,148	16,220

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, 2011, Kookmin Bank was the largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2011, Kookmin Bank had approximately 26.7 million customers, with 1,165 branches nationwide.

- *KB Kookmin Card Co., Ltd.* was established in March 2011 as a separate entity upon the completion of a horizontal spin-off of Kookmin Bank's credit card business, to provide credit card services.
- *KB 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 Life Insurance Co., Ltd.*, was established in Korea in April 2004 to provide life insurance and wealth management products primarily through our branch network.
- *KB Asset Management Co., Ltd.* was established in Korea in April 1988 as a subsidiary of Citizens Investment Trust Company to provide investment advisory services.
- *KB Real Estate Trust Co., Ltd.* was established in Korea in December 1996 to provide real estate development and brokerage services by managing trusts related to the real estate industry.
- *KB Investment Co., Ltd.* was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises.
- *KB Credit Information Co., Ltd.* was established in Korea in October 1999 to collect delinquent loans and to check credit history.
- *KB Data Systems Co., Ltd.* was established in Korea in September 1991 to provide software services to us and other financial institutions.
- *KB Savings Bank Co., Ltd.* was established in Korea in January 2012 to provide small-loan finance services. KB Savings Bank was established in connection with our purchase of assets and assumption of liabilities of Jeil Savings Bank in January 2012.

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, 2011, we had a countrywide network of 1,165 banking branches and sub-branches, as well as 58 branches for our other operations including credit information, real estate, investment banking 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, Guangzhou, Harbin and Suzhou in China and Ho Chi Minh City in Vietnam, as well as a representative office of Kookmin Bank in Hanoi in Vietnam. We do not own any material properties outside of Korea.

The net carrying amount of all the properties owned by us at December 31, 2011 was ₩2,919 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 IFRS as issued by the IASB. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through majority ownership of voting stock and/or other means. Investments in jointly controlled entities and associates (companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. 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 generally 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 2011, we recorded charge-offs of ₩1,274 billion in respect of our loans to small- and medium-sized enterprises, compared to charge-offs of ₩1,541 billion in 2010. In light of the difficult financial condition and liquidity position of small- and medium-sized enterprises in Korea since the second half of 2008, the Korean government 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.”

In recent years, commercial banks, 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 since the second half of 2008, have generally led to increasing delinquencies and a deterioration in asset quality. In 2011, we recorded charge-offs of ₩287 billion and provision for loan losses of ₩296 billion in respect of our retail loan portfolio, compared to charge-offs of ₩274 billion and provision for loan losses of ₩265 billion in 2010. In June 2011, the Korean

government announced a set of policy objectives to curtail the rapid growth of consumer lending by commercial banks, consumer finance companies and other financial institutions, as well as measures to encourage the increased use of fixed interest rates in consumer lending and to strengthen the protection of retail borrowers. 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 2012 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor’s Rating Services of the long-term sovereign credit rating of the United States to “AA+” from “AAA” in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Spain, Italy and other countries in Europe. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons program, as well as political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are implementing “exit strategies,” in the form of reduced government spending 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. Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. 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 2012 and for the foreseeable future remains uncertain.

Acquisitions

In January 2012, we established KB Savings Bank to provide small-loan finance services to retail customers. KB Savings Bank was established in connection with our purchase of the assets of Jeil Savings Bank and assumption of its liabilities pursuant to a purchase and assumption agreement among Jeil Savings Bank, the Korea Deposit Insurance Corporation and us. In connection with such purchase and assumption, we recognized an acquisition of ₩2,546 billion of assets and an assumption of ₩2,654 billion of liabilities and also ₩108 billion of goodwill. Under the purchase and assumption agreement, we have the right to transfer to the Korea Deposit Insurance Corporation a portion of the assets we purchased and related liabilities we assumed, subject to certain conditions, by May 2012. See Note 44 of the notes to our consolidated financial statements included elsewhere in this annual report.

New Basel Capital Accord

Beginning in 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 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. 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. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. 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 29, 2007	Dec. 31, 2007	June 30, 2008	Dec. 30, 2008	June 30, 2009	Dec. 30, 2009	June 30, 2010	Dec. 30, 2010	June 30, 2011	Dec. 29, 2011
KOSPI	1,743.60	1,897.13	1,674.92	1,124.47	1,390.07	1,682.77	1,698.29	2,051.0	2,100.69	1,825.74
₩/US\$ exchange rates ⁽¹⁾	₩ 922.6	₩ 935.8	₩ 1,046.8	₩ 1,262.00	₩ 1,273.5	₩ 1,163.7	₩ 1,273.5	₩ 1,163.7	₩ 1,066.3	₩ 1,158.5
Corporate bond rates ⁽²⁾	5.64%	6.94%	6.88%	8.12%	5.61%	5.70%	4.96%	4.30%	4.49%	4.22%
Treasury bond rates ⁽³⁾	5.26%	5.74%	5.90%	3.41%	4.16%	4.41%	3.86%	3.38%	3.76%	3.34%

⁽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.

Impairment of Loans and Allowances for Loan Losses

We evaluate our loan portfolio for impairment on an ongoing basis. We have established allowances for loan losses, which are available to absorb probable losses that have been incurred in our loan portfolio as of the balance sheet date. If we believe that additions or changes to the allowances for loan losses are required, we record a provision for loan losses (as part of our provision for credit losses), which is treated as a charge against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the allowances for loan losses.

Our accounting policies for losses arising from the impairment of loans and allowances for loan losses are described in Note 3.6 of the notes to our consolidated financial statements. We base the level of our allowances for loan losses on an evaluation of the risk characteristics of our loan portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions.

Allowances represent our management's best estimate of losses incurred in the loan portfolio as of the balance sheet date. Our management is required to exercise judgment in making assumptions and estimates when calculating loan allowances on both individually and collectively assessed loans.

The determination of the allowances required for loans which are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as economic conditions, the financial performance of the counterparty and the value of any collateral held for which there may not be a readily accessible market. 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. The actual amount of the future cash flows and their timing may differ from the estimates used by our management and consequently may cause actual losses to differ from the reported allowances.

The allowances for portfolios of smaller-balance homogenous loans, such as those to individuals and small business customers, and for those loans which are individually significant but for which no objective evidence of impairment exists, are determined on a collective basis. The collective allowances are calculated on a portfolio basis using statistical models which incorporate numerous estimates and judgments. We perform a regular review of the models and underlying data and assumptions.

Our consolidated financial statements for the year ended December 31, 2011 included total allowances for loan losses of ₩3,448 billion as of that date. Our total loan charge-offs, net of recoveries, amounted to ₩1,691 billion and we recorded a provision for loan losses (which forms a part of the provision for credit losses, together with provisions for unused loan commitments, acceptances and guarantees, financial guarantee contracts and other financial assets) of ₩1,645 billion in 2011.

We believe that the accounting estimates related to our impairment of loans and allowances for loan losses are a “critical accounting policy” because: (1) they are highly susceptible to change from period to period because they require us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated loan losses (as reflected in our allowances for loan losses) and actual loan losses could require us to take an additional provision which, if significant, could have a material impact on our profit. 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.

Valuation of Financial Instruments

Our accounting policy for determining the fair value of financial instruments is described in Notes 3.3 and 6 of the notes to our consolidated financial statements.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and, as such, the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 6.2 of the notes to our consolidated financial statements. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.
- Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.
- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

- *Level 1*: Quoted prices in active markets for identical assets or liabilities.
- *Level 2*: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.

- *Level 3*: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions are intended to reflect those that market participants would use in pricing the asset or liability at the measurement date.

For financial instruments traded in the over-the-counter market, we measure the fair value of such instruments as the arithmetic mean of prices obtained from Korea Asset Pricing (an affiliate of Fitch Ratings), KIS Pricing (an affiliate of Moody's Investors Service) and NICE Pricing Service, all three of which are recognized as major qualified independent pricing services in Korea. There are extremely rare cases where we do not receive price quotes from all three of the pricing services described above. In such cases, we contact the pricing service which did not submit a price quote to discuss the reason why it cannot provide a price and, following such discussion, we use the arithmetic mean of only the prices obtained from the other pricing services so long as there is no reason to believe that the prices that have been submitted are inadequate. We generally do not adjust the prices we obtain from these independent pricing services, as the variance among such prices is insignificant in most cases (primarily because most of the financial instruments we hold consist of government bonds and highly-rated corporate bonds, there is a high volume of transactions in the over-the-counter market and actual transaction prices are monitored and referenced by the pricing services).

Our consolidated financial statements for the year ended December 31, 2011 included financial assets measured at fair value using a valuation technique of ₩17,614 billion, representing 56.5% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of ₩2,739 billion, representing 79.4% of total financial liabilities measured at fair value. As used herein, the fair value using a valuation technique means the fair value at Level 2 and Level 3 in the fair value hierarchy.

We believe that the accounting estimates related to the determination of the fair value of financial instruments are a "critical accounting policy" because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimate of the fair value of these financial instruments on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these financial instruments could result in valuation losses or losses on disposal which may have a material impact on our profit. Our assumptions about the fair value of financial instruments we hold require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Deferred Income Tax Assets

Our accounting policy for the recognition of deferred income tax assets is described in Notes 3.21 and 16 of the notes to our consolidated financial statements. The recognition of deferred income tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

We recognize deferred income tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and unused tax credits. Deferred income tax assets are recognized only to the extent it is probable that sufficient taxable profit will be available against which those deductible temporary differences, unused tax losses or unused tax credits can be utilized. This assessment requires significant management judgment and assumptions. In determining the amount of deferred income tax assets, we use historical tax capacity and profitability information and, if relevant, forecasted operating results, based upon approved business plans, including a review of the eligible carry-forward periods, available tax planning opportunities and other relevant considerations.

Our consolidated financial statements for the year ended December 31, 2011 included deferred income tax assets and liabilities of ₩22 billion and ₩221 billion, respectively, as of that date, after offsetting of ₩1,111 billion of deferred income tax liabilities and assets.

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

Results of Operations

Comparison of 2011 to 2010

Net Interest Income

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

	Year Ended December 31,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Interest income			
Cash and interest earning deposits in other banks	₩ 38	₩ 75	97.4%
Loans	11,512	12,412	7.8
Financial investments (debt securities) ⁽¹⁾	1,502	1,469	(2.2)
Total interest income	13,052	13,956	6.9
Interest expense			
Deposits	4,709	4,945	5.0
Debts	306	399	30.4
Debentures	1,863	1,508	(19.1)
Total interest expense	6,878	6,852	(0.4)
Net interest income	₩ 6,174	₩ 7,104	15.1
Net interest margin ⁽²⁾	2.58%	2.88%	

Notes:

⁽¹⁾ Consists of debt securities in our available-for-sale and held-to-maturity financial asset portfolios.

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

Interest income. Interest income increased 6.9% from ₩13,052 billion in 2010 to ₩13,956 billion in 2011, primarily as a result of a 7.8% increase in interest on loans. The average balance of our interest earning assets increased 3.1% from ₩239,273 billion in 2010 to ₩246,627 billion in 2011, principally due to the growth in our loan portfolio. This increase was enhanced by a 21 basis point increase in average yields on our interest earning assets from 5.45% in 2010 to 5.66% in 2011, which reflected an increase in the general level of interest rates in Korea in 2011.

The 7.8% increase in interest on loans from ₩11,512 billion in 2010 to ₩12,412 billion in 2011 was primarily the result of:

- a 10.8% increase in the average volume of home equity loans from ₩26,524 billion in 2010 to ₩29,399 billion in 2011, which was enhanced by a 41 basis point increase in average yields on such loans from 4.74% in 2010 to 5.15% in 2011;
- a 54 basis point increase in average yields on mortgage loans from 4.42% in 2010 to 4.96% in 2011, which was partially offset by a 1.2% decrease in the average volume of such loans from ₩44,322 billion in 2010 to ₩43,790 billion in 2011;
- a 2.7% increase in the average volume of corporate loans from ₩92,018 billion in 2010 to ₩94,486 billion in 2011, which was enhanced by a 6 basis point increase in average yields on such loans from 5.37% in 2010 to 5.43% in 2011; and
- a 35 basis point increase in average yields on other consumer loans from 7.11% in 2010 to 7.46% in 2011, which was enhanced by a 3.9% increase in the average volume of such loans from ₩28,075 billion in 2010 to ₩29,179 billion in 2011.

The average yields for home equity loans, mortgage loans, corporate loans and other consumer loans increased mainly as a result of the increase in the general level of interest rates in Korea applicable to such loans from 2010 to 2011. The increase in the average volume of home equity loans mainly reflected higher demand for such loans in Korea. The decrease in the average volume of mortgage loans was primarily a result of initiatives by the Korean government to reduce household debt by tightening rules on mortgage lending in 2011. The increase in the average volume of corporate loans was primarily due to our increased marketing efforts as well as increased demand for such loans in anticipation of higher funding costs due to growing adverse conditions in the global financial markets beginning in the second half of 2011. The increase in the average volume of other consumer loans was principally due to higher demand for such loans in Korea.

Overall, the average volume of our loans increased 3.3%, from ₩204,945 billion in 2010 to ₩211,673 billion in 2011, and the average yields on our loans increased by 24 basis points, from 5.62% in 2010 to 5.86% in 2011.

Debt securities in our financial investments portfolio consists of available-for-sale debt securities and held-to-maturity debt securities, including debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by Korean banks and other financial institutions. The 2.2% decrease in interest on debts securities in our financial investments portfolio from ₩1,502 billion in 2010 to ₩1,469 billion in 2011 was the result of a 13 basis point decrease in average yields on such debt securities from 4.63% in 2010 to 4.50% in 2011, as the average volume of such debt securities remained relatively steady at ₩32,655 billion in 2011 compared to ₩32,449 billion in 2010. The decrease in average yields on such debt securities was primarily due to an increase in the proportion of monetary stabilization bonds in our financial investments portfolio, which typically feature relatively lower yields compared to other types of debt securities in our financial investments portfolio.

Interest Expense. Interest expense decreased 0.4% from ₩6,878 billion in 2010 to ₩6,852 billion in 2011, due mainly to a 19.1% decrease in interest expense on debentures. Such decrease was substantially offset by a 5.0% increase in interest expense on deposits and a 30.4% increase in interest expense on debts. The average volume of interest bearing liabilities increased 1.6% from ₩223,504 billion in 2010 to ₩227,158 billion in 2011, principally due to an increase in the average volume of deposits. The effect of this increase was partially offset by a decrease of 6 basis points in the average cost of interest bearing liabilities from 3.08% in 2010 to 3.02% in 2011, which was driven mainly by an increase in the proportion of deposits and debts, which typically feature relatively lower interest rates compared to debentures, in our funding portfolio.

The 19.1% decrease in interest expense on debentures from ₩1,863 billion in 2010 to ₩1,508 billion in 2011 resulted primarily from a 21.5% decrease in the average volume of long-term debentures from ₩32,313 billion in 2010 to ₩25,352 billion in 2011. The effect of such decrease was partially offset by a 7 basis point increase in the average cost of long-term debentures from 5.50% in 2010 to 5.57% in 2011. The decrease in the average volume of long-term debentures mainly reflected decreased use of long-term debentures to meet our funding needs, while the increase in the average cost of such debentures was primarily attributable to the general increase in market interest rates in Korea, including for such debentures.

The 5.0% increase in interest expense on deposits from ₩4,709 billion in 2010 to ₩4,945 billion in 2011 was primarily due to:

- a 10.7% increase in the average volume of time deposits from ₩112,621 billion in 2010 to ₩124,713 billion in 2011, which was enhanced by a 6 basis point increase in the average cost of such deposits from 3.60% in 2010 to 3.66% in 2011; and
- a 15 basis point increase in the average cost of demand deposits from 0.43% in 2010 to 0.58% in 2011, which was enhanced by a 10.0% increase in the average volume of such deposits from ₩48,919 billion in 2010 to ₩53,824 billion in 2011.

The effect of such increases was partially offset by an 84.2% decrease in the average volume of certificates of deposit from ₩11,044 billion in 2010 to ₩1,746 billion in 2011, which was enhanced by an 11 basis point decrease in the average cost of such deposits from 4.00% in 2010 to 3.89% in 2011.

The increase in the average volume of time deposits and demand deposits mainly reflected higher demand in Korea for lower-risk financial products as well as deposit products from larger commercial banks as opposed to smaller and higher-risk savings banks, in light of continued financial market volatility in 2011.

The increase in the average cost of demand deposits and time deposits was principally due to the increase in the general level of interest rates in Korea in 2011. The decrease in the average volume of certificates of deposit resulted primarily from our continuing efforts to convert our certificates of deposit into other deposits in order to comply with new loan-to-deposit ratio requirements set by the Financial Supervisory Service, which exclude certificates of deposit from the calculation of total deposits for purposes of determining compliance with such ratio requirements. The decrease in the average cost of certificates of deposit mainly reflected our decreased emphasis in marketing certificates of deposit, which resulted in lower pricing of such deposits.

Overall, the average volume of our deposits increased by 4.5% from ₩172,584 billion in 2010 to ₩180,283 billion in 2011, while the average cost of our deposits remained relatively steady at 2.74% in 2011 compared to 2.73% in 2010.

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 2.58% in 2010 to 2.88% in 2011, as a 15.1% increase in our net interest income from ₩6,174 billion in 2010 to ₩7,104 billion in 2011 outpaced a 3.1% increase in the average volume of our interest earning assets from ₩239,273 billion in 2010 to ₩246,627 billion in 2011. The growth in average interest earning assets outpaced a 1.6% increase in average interest bearing liabilities from ₩223,504 billion in 2010 to ₩227,158 billion in 2011, while the increase in interest income more than offset the increase in interest expense, resulting in an increase in net interest income. The magnitude of this increase was enhanced by an increase in 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 2.37% in 2010 to 2.64% in 2011. The increase in our net interest spread reflected an increase in the average yield of our interest earning assets, which reflected an increase in the general level of interest rates in Korea in 2011, coupled with a decrease in the average cost of our interest bearing liabilities from 2010 to 2011, which was driven mainly by an increase in the proportion of deposits and debts, which typically feature relatively lower interest rates compared to debentures, in our funding portfolio.

Provision for Credit Losses

Provision for credit losses includes provision for loan losses, provision for unused loan commitments, provision for acceptances and guarantees, provision for financial guarantee contracts and provision for other financial assets, in each case net of reversal of provisions. Our provision for credit losses decreased 47.3% from ₩2,871 billion in 2010 to ₩1,513 billion in 2011, primarily due to a decrease in provision for loan losses in respect of our corporate loans. Such decrease resulted mainly from an improvement in the overall asset quality of our corporate loans. For a discussion of our loan loss provisioning policy, see “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Provisioning Policy.”

In accordance with the guidelines of the Financial Supervisory Service, if our provision for loan losses are deemed insufficient for regulatory purposes, we compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within retained earnings. See “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Regulatory Reserve for Credit Losses” and Note 25 of the notes to our consolidated financial statements included elsewhere in this annual report.

Our loan write-offs, net of recoveries, decreased 4.3% from ₩1,767 billion in 2010 to ₩1,691 billion in 2011, primarily due to a decrease in write-offs of loans to corporate borrowers.

Our provision for acceptances and guarantees and unused loan commitments changed from a provision of ₩318 billion in 2010 to a reversal of provision of ₩130 billion in 2011, due primarily to a decrease in provision for refund guarantees issued on behalf of shipbuilding companies.

Allowances for Loan Losses

Under IFRS, we establish allowances for loan losses with respect to loans to absorb such losses. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determine that no objective evidence of impairment exists for a loan, we include such loan in a group of loans with similar credit risk characteristics and assess them collectively for impairment regardless of whether such loan is significant. For further information on allowances for loan losses, see “—Critical Accounting Policies—Impairment of Loans and Allowances for Loan Losses” and “Item 4B. Business Overview—Assets and Liabilities—Loan Portfolio—Allocation and Analysis of Allowances for Loan Losses under IFRS.”

Corporate Loans. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans:

	<u>As of</u> <u>December 31,</u>	
	<u>2010</u>	<u>2011</u>
Impaired corporate loans as a percentage of total corporate loans	3.0%	2.3%
Allowances for loan losses for corporate loans as a percentage of total corporate loans	3.2	2.5
Allowances for loan losses for corporate loans as a percentage of impaired corporate loans	106.8	107.3
Net charge-offs of corporate loans as a percentage of total corporate loans	1.6	1.3

During 2011, impaired corporate loans and allowances for loan losses for corporate loans, each as a percentage of total corporate loans, decreased due to decreases in our impaired corporate loans and allowances for loan losses for such loans. However, allowances for loan losses for corporate loans as a percentage of impaired corporate loans increased during 2011 as a result of the deterioration in the asset quality of loans to the construction and shipbuilding sectors, which led to a worse overall mix of impaired corporate loans.

Retail Loans. The following table shows, for the periods indicated, certain information regarding our impaired retail loans:

	As of December 31,	
	2010	2011
Impaired retail loans as a percentage of total retail loans	1.0%	1.0%
Allowances for loan losses for retail loans as a percentage of total retail loans	0.5	0.6
Allowances for loan losses for retail loans as a percentage of impaired retail loans	51.4	59.9
Net charge-offs of retail loans as a percentage of total retail loans	0.1	0.2

During 2011, impaired retail loans as a percentage of total retail loans remained relatively constant. However, a deterioration in the asset quality of our existing impaired retail loans led to a worse overall mix of impaired retail loans, which caused the level of allowances for loan losses as a percentage of both total retail loans and impaired retail loans to increase.

Credit Card Balances. The following table shows, for the periods indicated, certain information regarding our impaired credit card balances:

	As of December 31,	
	2010	2011
Impaired credit card balances as a percentage of total credit card balances	0.6%	0.9%
Allowances for loan losses for credit card balances as a percentage of total credit card balances	2.6	2.8
Allowances for loan losses for credit card balances as a percentage of impaired credit card balances	418.3	327.9
Net charge-offs as a percentage of total credit card balances	1.1	1.7

During 2011, impaired credit card balances and allowances for loan losses for credit card balances, each as a percentage of total credit card balances, increased due to growth in our impaired credit card balances and allowances for loan losses for credit card balances. However, the increase in our impaired credit card balances outpaced the increase in our allowances for loan losses for credit card balances, resulting in a decrease in the level of allowances for loan losses for credit card balances as a percentage of impaired credit card balances.

Net Fee and Commission Income

The following table shows, for the periods indicated, the components of our net fee and commission income:

	Year Ended December 31,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Fee and commission income	₩2,482	₩ 2,830	14.0%
Fee and commission expense	(777)	(1,035)	33.2
Net fee and commission income	<u>₩1,705</u>	<u>₩ 1,795</u>	5.3

Our net fee and commission income increased 5.3% from ₩1,705 billion in 2010 to ₩1,795 billion in 2011, as a 14.0% increase in fee and commission income from ₩2,482 billion in 2010 to ₩2,830 billion in 2011 outpaced a 33.2% increase in fee and commission expense from ₩777 billion in 2010 to ₩1,035 billion in 2011. The 14.0% increase in fee and commission income was mainly the result of an increase in other business account commission on consignment from ₩44 billion in 2010 to ₩174 billion in 2011 and an increase in agent activity fees from ₩136 billion in 2010 to ₩238 billion in 2011. The almost three-fold increase in other business account commission on consignment mainly resulted from our receipt of ₩137 billion in accrued but unpaid fees from the Ministry of Land, Transport and Maritime Affairs relating to our management of the National Housing Fund from January 2007 to June 2010. The 75.0% increase in agent activity fees was principally due to an increase in our commission income from our bancassurance business.

The 33.2% increase in fee and commission expense was primarily due to an increase in credit card related fees and commissions paid from ₩541 billion in 2010 to ₩839 billion in 2011, which was partially offset by a 9.4% increase in credit card related fees and commissions received from ₩1,044 billion in 2010 to ₩1,142 billion in 2011, which is recorded as part of fee and commission income. The 55.1% increase in credit card related fees and commissions paid resulted mainly from increases in benefits and rewards provided to our credit card users and marketing expenses.

For further information regarding our net fee and commission income, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Gain on Financial Assets and Liabilities at Fair Value through Profit and Loss

The following table shows, for the periods indicated, the components of our net gain on financial assets and liabilities at fair value through profit and loss:

	Year Ended December 31,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Net gain on financial assets held-for-trading	₩ 361	₩ 181	(49.9)%
Net gain on derivatives held-for-trading	570	907	59.1
Net loss on financial liabilities held-for-trading	(117)	(59)	(49.6)
Net gain on financial instruments designated at fair value through profit or loss	<u>1</u>	<u>7</u>	600.0
Net gain on financial assets and liabilities at fair value through profit or loss	<u>₩ 815</u>	<u>₩1,036</u>	27.1

Our net gain on financial assets and liabilities at fair value through profit or loss increased 27.1% from ₩815 billion in 2010 to ₩1,036 billion in 2011, primarily as a result of a 59.1% increase in net gain on derivatives held-for-trading from ₩570 billion in 2010 to ₩907 billion in 2011, which was offset in part by a 49.9% decrease in net gain on financial assets held-for-trading from ₩361 billion in 2010 to ₩181 billion in 2011. The increase in net gain on derivatives held-for-trading was principally due to a 25.1% increase in gain on currency derivatives held-for-trading from ₩708 billion in 2010 to ₩886 billion in 2011. The decrease in net gain on financial assets held-for-trading mainly reflected a 35.0% decrease in net gain on debt securities held-for-trading from ₩320 billion in 2010 to ₩208 billion in 2011. For further information regarding our net gain on financial assets and liabilities at fair value through profit or loss, see Note 28 of the notes to our consolidated financial statements included elsewhere in this annual report.

General and Administrative Expenses

The following table shows, for the periods indicated, the components of our general and administrative expenses:

	Year Ended December 31,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Employee compensation and benefits	₩2,407	₩1,871	(22.3)%
Depreciation and amortization	348	343	(1.4)
Other general and administrative expenses	1,612	1,718	6.6
General and administrative expenses	<u>₩4,367</u>	<u>₩3,932</u>	(10.0)

Our general and administrative expenses decreased 10.0% from ₩4,367 billion in 2010 to ₩3,932 billion in 2011, primarily as a result of a 22.3% decrease in employee compensation and benefits from ₩2,407 billion in 2010 to ₩1,871 billion in 2011. Such decrease in employee compensation and benefits was principally due to a 98.2% decrease in termination benefits from ₩654 billion in 2010 to ₩12 billion in 2011, which mainly reflected special termination benefits paid in the fourth quarter of 2010 in connection with our voluntary early retirement program, which was not repeated in 2011.

Net Other Operating Expenses

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year Ended December 31,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Other operating income	₩ 3,773	₩ 3,684	(2.4)%
Other operating expenses	(4,841)	(4,776)	(1.3)
Net other operating expenses	<u>₩(1,068)</u>	<u>₩(1,092)</u>	2.2

Our net other operating expenses increased 2.2% from ₩1,068 billion in 2010 to ₩1,092 billion in 2011, as a 2.4% decrease in other operating income from ₩3,773 billion in 2010 to ₩3,684 billion in 2011 outpaced a 1.3% decrease in other operating expenses from ₩4,841 billion in 2010 to ₩4,776 billion in 2011.

Other operating income includes principally gain on foreign exchange transactions, income related to insurance, revenue related to available-for-sale financial assets and other income. The 2.4% decrease in other operating income was attributable mainly to a 21.1% decrease in gain on foreign exchange transactions from ₩1,981 billion in 2010 to ₩1,563 billion in 2011, the effect of which was partially offset by a 206.7% increase in gain on sale of available-for-sale financial assets from ₩180 billion in 2010 to ₩552 billion in 2011. The decrease in gain on foreign exchange transactions, which was principally due to reduced exchange rate volatility, was partially offset by a corresponding decrease in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, our net loss on foreign exchange transactions increased 61.3% from ₩400 billion in 2010 to ₩645 billion in 2011. The increase in gain on sale of available-for-sale financial assets was principally due to gains from disposal of our shares of Hyundai Engineering and Construction Co., Ltd. in 2011.

Other operating expenses include principally loss on foreign exchange transactions, expenses related to insurance, expenses related to available-for-sale financial assets and other expenses. The 1.3% decrease in other operating expenses was primarily the result of a 7.3% decrease in loss on foreign exchange transactions from

₩2,381 billion in 2010 to ₩2,208 billion in 2011, the effect of which was partially offset by a 9.2% increase in other expenses from ₩1,300 billion in 2010 to ₩1,419 billion in 2011. The decrease in loss on foreign exchange transactions, which reflected reduced exchange rate volatility, was more than offset by a corresponding decrease in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above. The increase in other expenses was principally due to an increase in provision for derivatives.

Expenses related to available-for-sale financial assets include impairment loss on such assets, which increased 6.0% from ₩48 billion in 2010 to ₩51 billion in 2011. Unrealized gains and losses (other than impairment losses) on available-for-sale and held-to-maturity financial assets are recorded in our consolidated statements of financial position as part of accumulated other comprehensive income, under total equity. In 2011, we recorded a net decrease in the value of such financial investments of ₩243 billion as part of other accumulated other comprehensive income (loss), principally as a result of a decrease in unrealized gain on our shares of Hyundai Engineering and Construction following our disposal of such shares in 2011 and realization of a gain, which was recorded as part of other operating income as discussed above.

For further information regarding our net other operating expenses, see Note 29 of the notes to our consolidated financial statements included elsewhere in this annual report.

Income Tax Expense (Benefit)

Our income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits, while deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income tax assets, including unused tax losses and credits, are recognized only to the extent it is probable that sufficient taxable profit will be available against which such deferred income tax assets can be utilized. See “—Critical Accounting Policies—Deferred Income Tax Assets.”

Income tax expense changed from an income tax benefit of ₩71 billion in 2010 to an income tax expense of ₩832 billion in 2011, mainly as a result of an increase in our profit before income tax, as well as adjustments recognized in 2010 for current tax of prior years, which reduced our tax payable by ₩172 billion in 2010. The statutory tax rate was 24.2% in 2010 and 2011. Our effective tax rate was 25.5% in 2011 compared to an effective tax benefit rate of 47.2% in 2010. See Note 32 of the notes to our consolidated financial statements included elsewhere in this annual report.

Profit for the Year

As a result of the above, our profit for the year increased to ₩2,429 billion in 2011 from ₩220 billion in 2010.

Results by Principal Business Segment

We compile and analyze financial information for our business segments based upon segment information used by our management for the purposes of resource allocation and performance evaluation. We are organized into six major business segments: retail banking operations, corporate banking operations, other banking operations, credit card operations, investment and securities operations and life insurance operations.

The following table shows, for the periods indicated, our results of operations by segment:

	Profit (Loss) ⁽¹⁾ for the Year Ended December 31,		Total Operating Revenue ⁽²⁾ for the Year Ended December 31,	
	2010	2011	2010	2011
	(in billions of Won)			
Retail banking operations	₩ 372	₩ 878	₩2,994	₩3,267
Corporate banking operations	(567)	461	2,363	2,287
Other banking operations	(418)	588	637	1,634
Credit card operations	764	441	1,361	1,402
Investment and securities operations	40	28	138	163
Life insurance operations	18	19	116	115
Other	80	(45)	17	(25)
Total⁽³⁾	₩ 289	₩2,370	₩7,626	₩8,843

(1) After deduction of income tax allocated to each segment.

(2) Represents operating revenue from external customers. See Note 5 of the notes to our consolidated financial statements.

(3) Prior to adjustments for consolidation, inter-segment transactions and certain differences in classification under our management reporting system.

Comparison of 2011 to 2010

Retail Banking Operations

This segment consists of retail banking services provided by Kookmin Bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩ 5,050	₩ 5,723	13.3%
Interest expense	(2,696)	(2,944)	9.2
Net fee and commission income	647	635	(1.9)
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	(104)	(2)	(98.1)
Net other operating income (expense)	98	(200)	N/M ⁽¹⁾
Provision for credit losses	(264)	(302)	14.4
Depreciation and amortization	(147)	(112)	(23.8)
Others	(2,002)	(1,613)	(19.4)
Profit (loss) before income tax	582	1,185	103.6
Tax income (expense) ⁽²⁾	(210)	(307)	46.2
Profit for the year	₩ 372	₩ 878	136.0%

(1) "N/M" means not meaningful.

(2) Represents the portion of Kookmin Bank's income tax allocated to this segment based on profit before income tax.

Our profit before income tax for this segment increased 103.6% from ₩582 billion in 2010 to ₩1,185 billion in 2011.

Interest income from our retail banking operations increased 13.3% from ₩5,050 billion in 2010 to ₩5,723 billion in 2011. This increase was principally due to an increase in the average yields on mortgage, home equity and other consumer loans, mainly reflecting the increase in the general level of interest rates in Korea applicable to such loans from 2010 to 2011, and an increase in the average volume of home equity and other consumer loans primarily due to an increase in demand for such loans.

Our largest and most important funding source is deposits from retail customers, which represent more than half of our total deposits. Interest expense for this segment increased 9.2% from ₩2,696 billion in 2010 to ₩2,944 billion in 2011. This increase was principally due to an increase in the average volume of time deposits held by retail customers, mainly reflecting higher demand in Korea for lower-risk financial products as well as deposit products from larger commercial banks as opposed to smaller and higher-risk savings banks, in light of continued financial market volatility in 2011. Such increase was enhanced by an increase in the average cost of time deposits and demand deposits held by retail customers, which was principally due to the increase in the general level of interest rates in Korea in 2011.

Net fee and commission income attributable to this segment remained relatively constant at ₩635 billion in 2011 compared to ₩647 billion in 2010.

Net loss from financial assets and liabilities at fair value through profit or loss attributable to this segment decreased 98.1% from ₩104 billion in 2010 to ₩2 billion in 2011, principally as a result of a decrease in valuation loss on derivatives.

Net other operating income attributable to this segment changed from an income of ₩98 billion in 2010 to an expense of ₩200 billion in 2011, mainly as a result of an increase in expenses related to inter-segment borrowings.

Provision for credit losses increased 14.4% from ₩264 billion in 2010 to ₩302 billion in 2011, mainly reflecting a deterioration in the asset quality of retail loans and an increase in charge-offs of such loans.

Depreciation and amortization attributable to this segment decreased 23.8% from ₩147 billion in 2010 to ₩112 billion in 2011.

Other expenses attributable to this segment decreased 19.4% from ₩2,002 billion in 2010 to ₩1,613 billion in 2011, principally due to special termination benefits paid in the fourth quarter of 2010 in connection with Kookmin Bank's voluntary early retirement program, which was not repeated in 2011.

Corporate Banking Operations

This segment consists of corporate banking services provided by Kookmin Bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩ 4,906	₩ 5,107	4.1%
Interest expense	(2,354)	(2,548)	8.2
Net fee and commission income	280	243	(13.2)
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	(4)	(2)	(50.0)
Net other operating income (expense)	(473)	(555)	17.3
Provision for credit losses	(2,393)	(1,007)	(57.9)
Depreciation and amortization	(52)	(38)	(26.9)
Others	(798)	(577)	(27.7)
Profit (loss) before income tax	(888)	623	N/M⁽¹⁾
Tax income (expense) ⁽²⁾	321	(162)	N/M ⁽¹⁾
Profit for the year	₩ (567)	₩ 461	N/M⁽¹⁾

⁽¹⁾ "N/M" means not meaningful.

⁽²⁾ Represents the portion of Kookmin Bank's income tax allocated to this segment based on profit before income tax.

Our profit before income tax for this segment changed from a loss of ₩888 billion in 2010 to a profit of ₩623 billion in 2011.

Interest income from our corporate banking operations increased 4.1% from ₩4,906 billion in 2010 to ₩5,107 billion in 2011. This increase was principally due to an increase in the average volume of corporate loans, mainly reflecting our increased marketing efforts as well as increased demand for such loans in anticipation of higher funding costs due to growing adverse conditions in the global financial markets beginning in the second half of 2011. Such increase was enhanced by an increase in the average yield on corporate loans, mainly reflecting the increase in the general level of interest rates in Korea applicable to such loans from 2010 to 2011.

Interest expense for this segment increased 8.2% from ₩2,354 billion in 2010 to ₩2,548 billion in 2011. This increase was principally due to an increase in the average volume of time deposits held by corporate customers, mainly reflecting higher demand in Korea for such deposits. Such increase was enhanced by an increase in the average cost of time deposits held by corporate customers, which was principally due to the increase in the general level of interest rates in Korea in 2011.

Net fee and commission income attributable to this segment decreased 13.2% from ₩280 billion in 2010 to ₩243 billion in 2011, due primarily to a decrease in fee and commission income from project financing operations.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment decreased by ₩2 billion from ₩4 billion in 2010 to ₩2 billion in 2011.

Net other operating expense attributable to this segment increased 17.3% from ₩473 billion in 2010 to ₩555 billion in 2011, mainly as a result of an increase in expenses related to inter-segment borrowings.

Provision for credit losses decreased 57.9% from ₩2,393 billion in 2010 to ₩1,007 billion in 2011, mainly reflecting an overall improvement in the asset quality of corporate loans.

Depreciation and amortization attributable to this segment decreased 26.9% from ₩52 billion in 2010 to ₩38 billion in 2011.

Other expenses attributable to this segment decreased 27.7% from ₩798 billion in 2010 to ₩577 billion in 2011, mainly reflecting special termination benefits paid in the fourth quarter of 2010 in connection with Kookmin Bank's voluntary early retirement program, which was not repeated in 2011.

Other Banking Operations

This segment primarily consists of Kookmin Bank's banking operations other than retail and corporate banking operations, including treasury activities and Kookmin Bank's "back office" administrative operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩ 1,582	₩1,529	(3.4)%
Interest expense	(1,305)	(854)	(34.6)
Net fee and commission income	73	503	589.0
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	846	994	17.5
Net other operating income (expense)	(597)	(318)	(46.7)
Provision (reversal of provision) for credit losses	(66)	17	N/M ⁽¹⁾
Depreciation and amortization	(122)	(146)	19.7
Share of profit of associates and joint ventures	(209)	1	N/M ⁽¹⁾
Others	(857)	(933)	8.9
Profit (loss) before income tax	(655)	793	N/M⁽¹⁾
Tax income (expense) ⁽²⁾	237	(205)	N/M ⁽¹⁾
Profit for the year	₩ (418)	₩ 588	N/M⁽¹⁾

⁽¹⁾ "N/M" means not meaningful.

⁽²⁾ Represents the portion of Kookmin Bank's income tax allocated to this segment based on profit before income tax.

Our profit before income tax for this segment changed from a loss of ₩655 billion in 2010 to a profit of ₩793 billion in 2011.

Interest income from our other banking operations decreased 3.4% from ₩1,582 billion in 2010 to ₩1,529 billion in 2011. This decrease was attributable primarily to a decrease in average yields on debt securities in Kookmin Bank's financial investments portfolio, due mainly to an increase in the proportion of monetary stabilization bonds in such portfolio, which typically feature relatively lower yields compared to other types of debt securities in such portfolio.

Interest expense for this segment decreased 34.6% from ₩1,305 billion in 2010 to ₩854 billion in 2011. This decrease was principally due to a decrease in the average volume of long-term debentures, which mainly reflected decreased use of long-term debentures to meet Kookmin Bank's funding needs. Such decrease was partially offset by an increase in the average cost of such debentures, which was primarily attributable to the general increase in market interest rates in Korea, including for such debentures.

Net fee and commission income attributable to this segment increased almost six-fold from ₩73 billion in 2010 to ₩503 billion in 2011, due primarily to increases in commission income received from KB Kookmin Card, which was spun-off from Kookmin Bank in March 2011, and management fees received from the National Housing Fund.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased 17.5% from ₩846 billion in 2010 to ₩994 billion in 2011, principally as a result of an increase in net gain on derivatives held-for-trading.

Net other operating expense attributable to this segment decreased 46.7% from ₩597 billion in 2010 to ₩318 billion in 2011, mainly as a result of an increase in income from inter-segment lending.

Provision for credit losses changed from a provision of ₩66 billion in 2010 to a reversal of provision of ₩17 billion in 2011, mainly reflecting a decrease in provision for receivables from derivatives transactions.

Depreciation and amortization attributable to this segment increased 19.7% from ₩122 billion in 2010 to ₩146 billion in 2011.

Share of profit of associates and joint ventures changed from a loss of ₩209 billion in 2010 to a profit of ₩1 billion in 2011, principally as a result of a decrease in impairment loss on Kookmin Bank's investment in JSC Bank CenterCredit as well as a decrease in loss on investments in other associates.

Other expenses attributable to this segment increased 8.9% from ₩857 billion in 2010 to ₩933 billion in 2011, primarily as a result of an increase in charitable donations made by Kookmin Bank.

Credit Card Operations

This segment consists of credit card activities, which were conducted by Kookmin Bank in 2010 and January and February of 2011. In March 2011, Kookmin Bank's credit card business was spun-off to KB Kookmin Card, a newly established company. As such, since March 2011, our credit card activities have been conducted by KB Kookmin Card. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩1,318	₩1,381	4.8%
Interest expense	(477)	(480)	0.6
Net fee and commission income (expense)	589	242	(58.9)
Net other operating income (expense)	(68)	(18)	(73.5)
Provision for credit losses	(129)	(207)	60.5
Depreciation and amortization	(12)	(36)	200.0
Others	(211)	(311)	47.4
Profit before income tax	1,010	571	(43.5)
Tax income (expense) ⁽¹⁾	(246)	(130)	(47.2)
Profit for the year	<u>₩ 764</u>	<u>₩ 441</u>	(42.3)%

⁽¹⁾ Represents the portion of Kookmin Bank's income tax for 2010 and January and February of 2011 allocated to this segment based on profit before income tax, and income tax attributable to KB Kookmin Card for March to December of 2011.

Our profit before income tax for this segment decreased by 43.5% from ₩1,010 billion in 2010 to ₩571 billion in 2011.

Interest income from our credit card operations increased 4.8% from ₩1,318 billion in 2010 to ₩1,381 billion in 2011. This increase was primarily due to an increase in the average volume of credit card loans, which mainly reflected an increase in demand for such loans.

Interest expense for this segment remained relatively constant at ₩480 billion in 2011 compared to ₩477 billion in 2010.

Net fee and commission income attributable to this segment decreased 58.9% from ₩589 billion in 2010 to ₩242 billion in 2011, due primarily to an increase in fee and commission expense paid to Kookmin Bank by KB Kookmin Card for, among other things, assisting with certain credit card operations and recruiting new credit card members through Kookmin Bank's branch network after the spin-off of Kookmin Bank's credit card business and the establishment of KB Kookmin Card in March 2011.

Net other operating expense attributable to this segment decreased 73.5% from ₩68 billion in 2010 to ₩18 billion in 2011, mainly as a result of an increase in income from sale of written-off credit card loans and receivables.

Provision for credit losses increased 60.5% from ₩129 billion in 2010 to ₩207 billion in 2011, mainly reflecting decreases in the asset quality of certain corporate purchasing card accounts and in recoveries on charged-off credit card loans and receivables.

Depreciation and amortization attributable to this segment increased by ₩24 billion from ₩12 billion in 2010 to ₩36 billion in 2011.

Other expenses attributable to this segment increased 47.4% from ₩211 billion in 2010 to ₩311 billion in 2011, primarily reflecting increases in employee benefits and other administrative expenses.

Investment and Securities Operations

This segment consists primarily of securities brokerage, investment banking, securities investment and trading and other capital markets services conducted by KB Investment & Securities. In March 2011, KB Investment & Securities was merged with KB Futures, with KB Investment & Securities as the surviving entity. Accordingly, the income statement data for this segment for 2011 reflect the results of operations of KB Futures for the period in 2011 following the merger. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩ 33	₩ 42	27.3%
Interest expense	(29)	(29)	0.0
Net fee and commission income	52	83	59.6
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	72	50	(30.6)
Net other operating income (expense)	7	14	100.0
Provision for credit losses	2	(6)	N/M ⁽¹⁾
Depreciation and amortization	(6)	(6)	0.0
Others	(78)	(111)	42.3
Profit before income tax	53	37	(30.2)
Tax income (expense) ⁽²⁾	(13)	(9)	(30.8)
Profit for the year	₩ 40	₩ 28	(30.0)%

⁽¹⁾ "N/M" means not meaningful.

⁽²⁾ Represents income tax attributable to KB Investment & Securities.

Our profit before income tax for this segment decreased 30.2% from ₩53 billion in 2010 to ₩37 billion in 2011.

Interest income from this segment increased 27.3% from ₩33 billion in 2010 to ₩42 billion in 2011. This increase was primarily due to an increase in the average volume of reserves for claims of customers' deposits and deposits for exchange-traded derivatives, principally as a result of KB Investment & Securities' merger with KB Futures in March 2011, which was enhanced by an increase in the average interest rates in respect of such reserves and deposits.

Interest expense for this segment remained relatively constant at ₩29 billion in 2010 and 2011.

Net fee and commission income attributable to this segment increased 59.6% from ₩52 billion in 2010 to ₩83 billion in 2011, principally as a result of an increase in brokerage commissions, which mainly resulted from KB Investment & Securities' merger with KB Futures in March 2011.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment decreased 30.6% from ₩72 billion in 2010 to ₩50 billion in 2011, principally as a result of an increase in net loss on derivatives held-for-trading.

Net other operating income attributable to this segment increased 100.0% from ₩7 billion in 2010 to ₩14 billion in 2011.

Provision for credit losses decreased from a reversal of provision of ₩2 billion in 2010 to a provision of ₩6 billion in 2011.

Depreciation and amortization attributable to this segment remained relatively constant at ₩6 billion in 2010 and 2011.

Other expenses attributable to this segment increased 42.3% from ₩78 billion in 2010 to ₩111 billion in 2011, primarily due to increases in bonus payments to employees and advertising expenses.

Life Insurance Operations

This segment consists of life insurance and wealth management services provided by KB Life Insurance. We currently hold a 51.0% voting interest in KB Life Insurance, which is accounted for as a consolidated subsidiary under IFRS as issued by the IASB. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩128	₩162	26.6%
Interest expense	—	—	—
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	3	—	N/M ⁽¹⁾
Net other operating income (expense)	(71)	(95)	33.8
Provision for credit losses	—	(1)	N/M ⁽¹⁾
Depreciation and amortization	(4)	(4)	0.0
Others	(33)	(38)	15.2
Profit before income tax	<u>23</u>	<u>24</u>	4.3
Tax income (expense) ⁽²⁾	<u>(5)</u>	<u>(5)</u>	0.0
Profit for the year	<u>₩ 18</u>	<u>₩ 19</u>	5.6

⁽¹⁾ “N/M” means not meaningful.

⁽²⁾ Represents income tax attributable to KB Life Insurance.

Our profit before income tax for this segment remained relatively steady at ₩24 billion in 2011 compared to ₩23 billion in 2010.

Interest income for this segment increased 26.6% from ₩128 billion in 2010 to ₩162 billion in 2011, primarily due to an increase in the average volume of available-for-sale debt securities held by KB Life Insurance, which was partially offset by a decrease in the average yield on such debt securities.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment decreased by ₩3 billion from 2010 to 2011.

Net other operating expense attributable to this segment increased 33.8% from ₩71 billion in 2010 to ₩95 billion in 2011, principally due to a decrease in premium income from individual life insurance products.

Provision for credit losses increased by ₩1 billion from 2010 to 2011.

Depreciation and amortization attributable to this segment remained relatively constant at ₩4 billion in 2010 and 2011.

Other expenses attributable to this segment increased 15.2% from ₩33 billion in 2010 to ₩38 billion in 2011.

Other

“Other” includes the operations of our holding company and all of our subsidiaries that were consolidated under IFRS as issued by the IASB as of December 31, 2011 except Kookmin Bank, KB Kookmin Card, KB Investment & Securities and KB Life Insurance, including principally KB Asset Management, KB Real Estate Trust, KB Investment, KB Credit Information and KB Data System. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,		Percentage change
	2010	2011	2011/2010
	(in billions of Won)		(%)
Income statement data			
Interest income	₩ 80	₩ 66	(17.5)%
Interest expense	(61)	(49)	(19.7)
Net fee and commission income	92	96	4.3
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	2	(4)	N/M ⁽¹⁾
Net other operating income	30	54	80.0
Provision for credit losses	(21)	(8)	(61.9)
Depreciation and amortization	(5)	(3)	(40.0)
Share of profit of associates and joint ventures	—	2	N/M ⁽¹⁾
Others	(25)	(197)	688.0
Profit before income tax	92	(43)	N/M ⁽¹⁾
Tax income (expense) ⁽²⁾	(12)	(2)	(83.3)
Profit (loss) for the year	<u>₩ 80</u>	<u>₩ (45)</u>	N/M ⁽¹⁾

⁽¹⁾ “N/M” means not meaningful.

⁽²⁾ Represents income tax attributable to our holding company and all of our subsidiaries that were consolidated under IFRS as issued by the IASB except Kookmin Bank, KB Kookmin Card, KB Investment & Securities and KB Life Insurance.

Our profit before income tax for this segment changed from a profit of ₩92 billion in 2010 to a loss of ₩43 billion in 2011.

Interest income attributable to this segment decreased 17.5% from ₩80 billion in 2010 to ₩66 billion in 2011. This decrease was primarily due to a decrease in the average volume of due from banks held by our holding company, which mainly resulted from a decrease in deposits held by the holding company at Kookmin Bank, which the holding company used in 2011 to repay ₩750 billion of its outstanding debentures.

Interest expense attributable to this segment decreased 19.7% from ₩61 billion in 2010 to ₩49 billion in 2011, due mainly to a decrease in the average volume of debentures issued by our holding company, which reflected its repayment of ₩750 billion of its outstanding debentures in 2011.

Net fee and commission income attributable to this segment increased 4.3% from ₩92 billion in 2010 to ₩96 billion in 2011.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment changed from a net gain of ₩2 billion in 2010 to a net loss of ₩4 billion in 2011.

Net other operating income attributable to this segment increased 80.0% from ₩30 billion in 2010 to ₩54 billion in 2011, primarily as a result of an increase in gain on disposal of available-for-sale equity securities held by KB Investment.

Provision for credit losses attributable to this segment decreased 61.9% from ₩21 billion in 2010 to ₩8 billion in 2011, mainly reflecting a decrease in KB Real Estate Trust's provision for credit losses resulting from both an improvement in the asset quality of trust accounts held by KB Real Estate Trust and a decrease in the average volume of such trust accounts.

Depreciation and amortization attributable to this segment remained relatively constant at ₩3 billion in 2011 compared to ₩5 billion 2010.

Share of profit of associates and joint ventures attributable to this segment increased by ₩2 billion from 2010 to 2011.

Other expense attributable to this segment increased almost seven-fold from ₩25 billion in 2010 to ₩197 billion in 2011, primarily as a result of a decrease in dividends received by our holding company from our subsidiaries.

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,		Percentage change
	2010	2011	
	(in billions of Won)		(%)
Cash and due from financial institutions	₩ 6,830	₩ 9,178	34.4%
Financial assets at fair value through profit or loss	4,014	6,326	57.6
Derivative financial assets	2,595	2,449	(5.6)
Financial investments	36,190	35,432	(2.1)
Loans:			
Loans to banks	2,819	3,988	41.5
Loans to customers other than banks:			
Loans in Won	173,245	184,211	6.3
Loans in foreign currencies	4,381	4,141	(5.5)
Domestic import usance bills	2,611	4,278	63.8
Off-shore funding loans	962	893	(7.2)
Call loans	143	1,093	664.3
Bills bought in Won	22	104	372.7
Bills bought in foreign currencies	2,227	2,723	22.3
Guarantee payments under payment guarantee	191	57	(70.2)
Credit card receivables in Won	12,410	12,420	0.1
Credit card receivables in foreign currencies	1	1	0.0
Bonds purchased under repurchase agreements	230	830	(260.9)
Privately placed bonds	2,135	816	(61.8)
Total loans to customers other than banks	198,558	211,567	7.0
Less:			
Allowances for loan losses	(3,756)	(3,448)	(8.2)
Total loans, net	197,621	212,107	7.3
Property and equipment	3,150	3,186	1.1
Other assets ⁽¹⁾	8,371	8,923	6.6
Total assets	₩258,771	₩277,601	7.3%

⁽¹⁾ Includes investments in associates and joint ventures, investment properties, intangible assets, deferred income tax assets, assets held for sale and other assets.

For further information on our assets, see “Item 4B. Business Overview—Assets and Liabilities.”

Comparison of 2011 to 2010

Our total assets increased 7.3% from ₩258,771 billion as of December 31, 2010 to ₩277,601 billion as of December 31, 2011, principally due to a 6.3% increase in loans in Won from ₩173,245 billion as of December 31, 2010 to ₩184,211 billion as of December 31, 2011, a 34.4% increase in cash and due from financial institutions from ₩6,830 billion as of December 31, 2010 to ₩9,178 billion as of December 31, 2011 and a 57.6% increase in financial assets at fair value through profit and loss from ₩4,014 billion as of December 31, 2010 to ₩6,326 billion as of December 31, 2011. The effect of these increases was partially offset by a 61.8% decrease in privately placed bonds from ₩2,135 billion as of December 31, 2010 to ₩816 billion as of December 31, 2011 and a 2.1% decrease in financial investments from ₩36,190 billion as of December 31, 2010 to ₩35,432 billion as of December 31, 2011.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	<u>As of December 31,</u>		<u>Percentage change</u>
	<u>2010</u>	<u>2011</u>	
	(in billions of Won)		(%)
Liabilities:			
Financial liabilities at fair value through profit or loss	₩ 1,295	₩ 1,388	7.2%
Deposits	179,862	190,337	5.8
Debts	11,745	16,824	43.2
Debentures	29,107	27,070	(7.0)
Provisions	1,020	798	(21.8)
Other liabilities ⁽¹⁾	16,076	18,084	12.5
Total liabilities	<u>239,105</u>	<u>254,501</u>	6.4
Equity:			
Capital stock	1,932	1,932	—
Capital surplus	15,990	15,842	(0.9)
Accumulated other comprehensive income	431	191	(55.7)
Retained earnings	2,621	4,953	89.0
Treasury shares	(2,477)	—	N/M ⁽²⁾
Equity attributable to stockholders	18,497	22,918	23.9
Non-controlling interests	1,169	182	(84.4)
Total equity	<u>19,666</u>	<u>23,100</u>	17.5
Total liabilities and equity	<u>₩258,771</u>	<u>₩277,601</u>	7.3%

⁽¹⁾ Includes derivative financial liabilities, current income tax liabilities, deferred income tax liabilities and other liabilities.

⁽²⁾ N/M = not meaningful.

Comparison of 2011 to 2010

Our total liabilities increased 6.4% from ₩239,105 billion as of December 31, 2010 to ₩254,501 billion as of December 31, 2011. The increase was primarily due to increases in deposits and debts. Our deposits increased 5.8% from ₩179,862 billion as of December 31, 2010 to ₩190,337 billion as of December 31, 2011, mainly as a result of an increase in time deposits in Won. Our debts increased 43.2% from ₩11,745 billion as of December 31, 2010 to ₩16,824 billion as of December 31, 2011, principally due to an increase in borrowings.

Our total equity increased by 17.5% from ₩19,666 billion as of December 31, 2010 to ₩23,100 billion as of December 31, 2011. This increase resulted principally from our sale of approximately 43.3 million treasury shares (with a carrying value of ₩2,477 billion) in 2011, as well as an increase in our retained earnings, which was attributable to the profit we generated in 2011.

Liquidity

Our primary source of funding has historically been and continues to be deposits. Deposits amounted to ₩179,862 billion and ₩190,337 billion as of December 31, 2010 and 2011, which represented approximately 81.5% and 81.3% of our total funding, respectively. We have been able to use customer deposits to finance our operations generally, including meeting a portion of our liquidity requirements. Although the majority of deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, thus providing us with a stable source of funding. However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. See “Item 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 financial assets and using the proceeds to fund parts of our operations, as necessary.

We also obtain funding through debentures and debts to meet our liquidity needs. Debentures represented 13.2% and 11.6% of our total funding as of December 31, 2010 and 2011, respectively. Debts represented 5.3% and 7.2% of our total funding as of December 31, 2010 and 2011, respectively. For further information on our sources of funding, see “Item 4B. Business Overview—Assets and Liabilities—Funding.”

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 debentures and debts, 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. We received aggregate dividends of ₩95 billion from our subsidiaries in 2010 but did not receive any dividends from our subsidiaries in 2011. 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, 2011.

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Long-term borrowing obligations ⁽¹⁾⁽²⁾	₩ 34,984	₩ 11,487	₩14,141	₩4,013	₩5,343
Operating lease obligations ⁽³⁾	185	104	66	14	1
Capital lease obligations	2	1	1	—	—
Pension obligations	104	104	—	—	—
Deposits ⁽⁴⁾⁽⁵⁾	136,684	127,220	7,620	1,334	510
Total	<u>₩171,959</u>	<u>₩138,916</u>	<u>₩21,828</u>	<u>₩5,361</u>	<u>₩5,854</u>

- ⁽¹⁾ Includes debt and debentures with original maturities of more than one year.
⁽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, 2011. In order to calculate future interest payments on debt with floating rates, we used contractual interest rates as of December 31, 2011.
⁽³⁾ This line item is not included within our consolidated statements of financial position.
⁽⁴⁾ Excluding demand deposits.
⁽⁵⁾ Includes estimated future interest payments, which have been estimated using the weighted average interest rates paid for 2011 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, 2011. These commitments, apart from certain financial guarantees, are not included within our consolidated statements of financial position. Financial guarantees are initially recognized at their fair value and thereafter measured at the greater of (x) the amount determined in accordance with International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) and (y) the initial amount recognized minus (when appropriate) cumulative amortization recognized in accordance with International Accounting Standard 18 (Revenue).

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Financial guarantees ⁽¹⁾	₩ 945	₩ 468	₩ 455	₩ 22	₩ —
Confirmed acceptances and guarantees	5,847	4,357	1,331	158	1
Commitments	91,744	90,825	718	198	3
Trust fund guarantees	2,892	653	391	333	1,515
Total	<u>₩101,428</u>	<u>₩96,303</u>	<u>₩2,895</u>	<u>₩711</u>	<u>₩1,519</u>

- ⁽¹⁾ Includes ₩623 billion of irrevocable commitments to provide contingent liquidity credit lines to special purpose entities for which we serve as the administrator. See Note 38 of the notes to our consolidated financial statements.

Capital Adequacy

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, 2011, Kookmin Bank’s capital adequacy ratio was 13.55%.

The following table sets forth a summary of Kookmin Bank’s capital and capital adequacy ratios as of December 31, 2011.

	<u>As of December 31, 2011 ⁽¹⁾</u>
	<u>(in billions of Won, except percentage)</u>
Tier I capital:	₩ 14,954
Paid-in capital	2,022
Capital reserves	5,043
Retained earnings	8,542
Non-controlling interests in consolidated subsidiaries	8
Others	(661)
Tier II capital:	4,714
Revaluation reserves	177
Allowances for credit losses ⁽¹⁾	490
Hybrid debt	136
Subordinated debt ⁽²⁾	2,943
Valuation gain on investment securities	66
Others	902
Total core and supplementary capital	19,668
Risk-weighted assets	145,185
Credit risk:	
On-balance sheet	5,340
Off-balance sheet	127,489
Market risk	2,193
Operational risk	10,163
Capital adequacy ratio	13.55%
Tier I capital	10.30
Tier II capital	3.25

⁽¹⁾ Allowance for credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.

⁽²⁾ Subordinated debt up to an amount equal to 50% of Tier I capital may be used in the calculation of Tier II capital.

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. 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. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. 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 the 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, 2011, based on applicable IFRS and regulatory reporting standards:

	As of December 31, 2011
	(in billions of Won)
Risk-weighted assets	₩192,813
Equity capital	25,240
Consolidated capital adequacy ratio	13.09%

Recent Accounting Pronouncements

See Note 2 of the notes to our consolidated financial statements for a description of recent accounting pronouncements under IFRS as issued by the IASB that have been issued but are not yet effective.

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 nine 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. Dr. 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 Richter	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 Richter 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:

Name	Date of Birth	Position	Director Since	Year Term Ends ⁽¹⁾
Kyung Jae Lee	January 30, 1939	Non-executive Director	March 26, 2010	2013
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
Kun Ho Hwang	January 23, 1951	Non-executive Director	March 23, 2011	2014
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	2013
Seung Hee Koh	June 26, 1955	Non-executive Director	March 26, 2010	2013
Young Nam Lee	September 3, 1957	Non-executive Director	March 26, 2010	2013
Jae Mok Cho	January 5, 1961	Non-executive Director	March 27, 2009	2013

⁽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.

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 and the chairman of the Korea Accounting Association. He was previously 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.

Kun Ho Hwang has been a non-executive director since March 2012. He is currently an advisor at the Korea Financial Investment Association. He was previously the chairman of the Korea Financial Investment Association, the chief executive officer of Meritz Securities Co., Ltd. and the deputy president of Daewoo Securities Co., Ltd. He received a B.A. in business administration from Seoul National University and an M.A. in economics from Rutgers University.

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:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>
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
Min Ho Lee	April 3, 1965	Deputy President; Chief Compliance Officer
Won Keun Yang	September 17, 1956	Senior Managing Director; Head of KB Research
Yong Jin Cho	February 1, 1961	Managing Director; Chief Human Resources Officer
Kyung Sub Han	December 20, 1958	Managing Director; Chief Risk Officer
Dong Cheol Lee	October 4, 1961	Managing Director; Head of Strategic Planning Department
Kyu Sul Choi	August 16, 1960	Managing Director; Head of Investor Relations 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 as a senior advisor at Kim & Chang law firm, a senior executive vice president, chief financial officer, chief strategy officer and retail banking head officer of Kookmin Bank and a senior partner and financial service leader of Samil PricewaterhouseCoopers. He received a B.A. and a Ph.D. in business administration from Sungkyungkwan University and an M.A. in business administration 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 Joongang Ilbo. He received a B.A. in journalism from Korea University and an M.B.A. in strategic management of information and telecommunications 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.

Min Ho 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.

Won Keun 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 the 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 finance from Georgia State University.

Yong Jin Cho is a managing director and the chief human resources officer. He previously served as a general manager of the Management Support Office and the Human Resources Department and the head of Kookmin Bank's Seojamsil and Nakseongdae branches. He received a B.A. in public administration from Korea University and an M.A. in human resources management from Sungshin Woman's University Graduate School.

Kyung Sub Han is a managing director and the chief risk officer. He previously served as the head of Kookmin Bank's Risk Management Department. He received a B.A. in mechanics from Inha University and an M.B.A. in financial engineering from Korea Advanced Institute of Science and Technology (KAIST).

Dong Cheol Lee is a managing director and the head of the Strategic Planning Department. He previously served as the head of the Financial Planning and Management Department, the head of Kookmin Bank's Taeyoungro branch and the general manager of Kookmin Bank's Strategic Planning Department. He received a B.A. in law from Korea University and an LL.M. from Tulane University Law School.

Kyu Sul Choi is a managing director and the head of the Investor Relations Department. He previously served as the head of Kookmin Bank's Investor Relations Department and Asset and Liability Management Department and the head of Korea First Bank's treasury department. He received a B.A. in business administration from Yonsei 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, 2011 was ₩3,554 million. In addition, for the year ended December 31, 2011, we set aside ₩535 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.

In 2011, we recognized a reversal of compensation expense of ₩14,502 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 30 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 2011, we recognized ₩6,893 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, Kun Ho Hwang, Young Jin Kim, Young Nam Lee, Jae Wook Bae and Jong Cheon Lee. The chairperson of the Audit Committee is Jong Cheon Lee. 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, Jae Wook Bae, Seung Hee Koh, Jong Cheon Lee and Young Jin Kim, 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 two non-standing directors, Byong Deok Min and Vaughn Richtor, three non-executive directors, Seung Hee Koh, Young Nam Lee and Jae Mok Cho, and our chairman and chief executive officer, Yoon-Dae Euh. The chairperson of the committee is Seung Hee Koh. 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, and four non-executive directors, Young Jin Kim, Kyung Jae Lee, Sang Moon Hahm and Seung Hee Koh. The chairperson of the Group Risk Management Committee is Young Jin Kim. 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, Jae Wook Bae, Kun Ho Hwang, Jong Cheon Lee, Sang Moon Hahm and Jae Mok Cho. The chairperson of the committee is Jae Wook Bae. 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 quarter.

Non-executive Director Nominating Committee

The committee currently has no members. The last meeting of the committee was on March 2, 2012 to nominate Kun Ho Hwang as a new non-executive director and Kyung Jae Lee, Sang Moon Hahm, Seung Hee Koh, Young Nam Lee and Jae Mok Cho for re-appointment as non-executive directors. 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 2, 2012 to nominate Young Jin Kim, Kun Ho Hwang and Young Nam 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, 2011, we had a total of 148 full-time employees, excluding 10 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,		
		2009	2010	2011
KB Financial Group	Full-time employees ⁽¹⁾	100	155	148
	Contractual employees	—	—	—
	Managerial employees	81	124	121
	Members of Korea Financial Industry Union	—	—	—
Kookmin Bank	Full-time employees ⁽¹⁾	18,299	16,615	16,080
	Contractual employees	7,687	6,017	5,769
	Managerial employees	11,929	11,647	11,278
	Members of Korea Financial Industry Union	21,256	18,728	17,389
Other subsidiaries	Full-time employees ⁽¹⁾	1,129	1,113	2,508
	Contractual employees	105	190	542
	Managerial employees	660	662	1,450
	Members of Korea Financial Industry Union	100	97	1,334

⁽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 three of our subsidiaries, Kookmin Bank, KB Kookmin Card and KB Real Estate Trust, our employees have a labor union. Every year, the unions at Kookmin Bank, KB Kookmin Card 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 30 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 pre-emptive rights to acquire up to 20% of our shares issued in public offerings by us pursuant to the Financial Investment Services and Capital Markets Act. In August 2009, we offered to members of our employee stock ownership association 6,000,000 of the 30,000,000 new shares of common stock to be issued in our rights offering to our existing shareholders, and the entire amount was subscribed by members of our employee stock ownership association. The employee stock ownership association held 3,404,834 shares of our common stock as of December 31, 2011.

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, 2011, Kookmin Bank's employee stock ownership association held 974,722 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 30, 2012, the persons who are currently our directors or executive officers, as a group, held an aggregate of 52,731 shares of our common stock, representing approximately 0.014% 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 30, 2012.

<u>Name of Executive Officer or Director</u>	<u>Number of Shares of Common Stock</u>
Yoon-Dae Euh	30,770
Young Rok Lim	3,648
Byong Deok Min	3,475
Kun Ho Hwang	500
Sang Moon Hahm	3,607
Dong Chang Park	200
Jong Kyoo Yoon	5,300
Wang Ky Kim	1,000
Seok Heung Ryu	127
Min Ho Lee	1,700
Won Keun Yang	260
Yong Jin Cho	473
Kyung Sup Han	632
Dong Cheol Lee	203
Kyu Sul Choi	836
Total	<u>52,731</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 March 30, 2012, 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				
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>2,110,268</u>	<u>38,330</u>	<u>2,071,938</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 ₩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 ₩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 ₩110 million, the equivalent monetary amount for 2,149 shares of our common stock, to our former non-executive director, Chee Joong Kim. In January 2011, we paid ₩133 million, the equivalent monetary amount for 2,323 shares of our common stock, to our former non-executive director, Chan Soo Kang. In April 2011, we paid an aggregate of ₩229 million, the equivalent monetary amount for 4,056 shares of our common stock, to our former non-executive directors, Suk Sig Lim and Jacques Kemp. 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, 2011 by each person or entity known to us to own beneficially more than 5% of our issued and outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

<u>Beneficial Owner</u>	<u>Number of Shares of Common Stock</u>	<u>Percentage of Total Outstanding Shares of Common Stock (%) ⁽¹⁾</u>
Citibank N.A. ⁽²⁾	33,653,277	8.71%
Korean National Pension Service ⁽³⁾	26,510,171	6.86%
ING Bank N.V.	19,401,044	5.02%

⁽¹⁾ Calculated based on 386,351,693 shares of our common stock outstanding as of December 31, 2011.

⁽²⁾ As depositary bank.

⁽³⁾ As of March 14, 2012, Korean National Pension Service's ownership of our shares was 27,894,880, representing 7.22% 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, 2011. None of our major stockholders has different voting rights from our other stockholders.

Item 7B. Related Party Transactions

As of December 31, 2011, we had an aggregate of ₩5,936 million in loans outstanding to our executive officers and directors and Kookmin Bank's executive officers and directors. In addition, as of such date, we had loans outstanding to various companies whose directors or executive officers were serving concurrently as our directors or executive officers. See Note 42 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 and subsequently assigned such interest to its affiliate, ING Insurance International II B.V., in December 2011.

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-186.

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 ₩321 billion in damages for excessive fees paid for 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 ₩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 ₩4.5 billion. In June 2008, both Kookmin Bank and Korea Lottery Service Inc. appealed the case to the Supreme Court of Korea, which dismissed both appeals in June 2011.

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 ₩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 Korea Lottery Service Inc. in part but reduced the amount of damages to ₩123 billion. In August 2008, both Kookmin Bank and Korea Lottery Service Inc. appealed the case to the Seoul High Court, which dismissed both appeals in October 2011. Neither side appealed the case.

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 ₩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 to December 2007. In August 2011, the court ruled in favor of Korea Lottery Service Inc. in part but reduced the amount of damages to ₩37 billion. Neither side appealed the case.

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 ₩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, which ruled in favor of Kookmin Bank in July 2011.

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

₩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 ₩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 ₩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, which ruled in favor of Kookmin Bank on January 12, 2012. On January 30, 2012, the National Tax Service of Korea appealed this case to the Supreme 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 six 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. Four of the lawsuits were dismissed and not appealed. The aggregate amount of the two remaining claims, as of January 31, 2012, was approximately ₩6,545 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. Nine of the lawsuits in which the plaintiffs claimed damages of ₩6,294 million in aggregate were dismissed and not appealed. One of the lawsuits in which the plaintiffs claimed damages of ₩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 ₩44 million. The one remaining lawsuit in which the plaintiffs claimed damages of ₩199 million in aggregate was ruled in favor of Kookmin Bank in part by the Seoul Central District Court in June 2011 and both Kookmin Bank and the plaintiffs appealed this case to the Seoul High Court. In February 2012, the Seoul High Court ruled in favor of Kookmin Bank in part but neither side appealed the case. 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, which ruled in favor of the six purchasers in November 2011.

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 ₩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. In August and November 2011, three of the lawsuits were dismissed by the Seoul Central District Court and not appealed. In the one remaining lawsuit, the Seoul Central District Court ruled in favor of the Korean government in part but reduced the amount of damages from ₩689 million to ₩22 million. Neither side appealed the case.

In January 2008, the Korea Fair Trade Commission instituted certain amendments to standard loan policy conditions for mortgage loan agreements to require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans. Subsequently, the Korea Federation of Banks and 16 banks, including Kookmin Bank, filed a lawsuit against the Korea Fair Trade Commission to prevent the implementation of such amendments. In August 2010, the Supreme Court ruled in favor of the Korea Fair Trade Commission. Since such ruling in August 2010, a number of Kookmin Bank's customers have filed 14 lawsuits against Kookmin Bank, alleging that it should return the mortgage registration expenses paid by such customers under mortgage loan agreements that did not reflect the amendments instituted by the Korea Fair Trade Commission in January 2008. The aggregate amount of claimed damages in the 14 lawsuits is ₩681 million. Additional lawsuits may be filed against Kookmin Bank with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

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 us in respect of the years ended December 31, 2010 and 2011. 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
	₩	US\$			(in millions of Won)
2010 ⁽²⁾	₩120	US\$0.11	—	—	₩ 41,163
2011 ⁽³⁾	720	0.62	—	—	278,173

⁽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 10, 2011, our board of directors passed a board resolution recommending a cash dividend of ₩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.

⁽³⁾ On February 9, 2012, our board of directors passed a board resolution recommending a cash dividend of ₩720 per common share (before dividend tax), representing 14.4% of the par value of each share, for the fiscal year ended December 31, 2011. This resolution was approved and ratified by our stockholders on March 23, 2012.

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	
2007	₩89,500	₩61,600	1,527.1	US\$96.57	US\$64.27	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
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	62,100	34,600	2,385.3	55.00	29.64	202.3
First Quarter	62,100	54,000	2,055.1	55.00	48.02	212.5
Second Quarter	58,500	48,400	2,093.5	53.72	44.92	151.3
Third Quarter	54,600	34,600	3,459.7	51.87	29.98	246.9
Fourth Quarter	45,000	35,650	1,912.8	41.28	29.64	197.9
October	45,000	38,600	2,261.4	41.28	31.38	200.0
November	42,700	36,150	1,795.0	38.12	31.23	209.7
December	39,900	35,650	1,704.1	34.92	29.64	183.9
2012 (through April 27)	45,000	35,750	1,670.1	40.63	30.98	169.9
January	42,800	35,750	1,859.9	38.08	30.98	188.4
February	45,000	40,650	1,757.5	40.63	36.01	202.6
March	44,100	40,350	1,591.7	38.90	35.30	146.0
April (through April 27)	43,500	40,000	1,460.5	38.21	35.25	143.7

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, 2011, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately ₩1,042 trillion. The average daily trading volume of equity securities for 2011 was approximately 354 million shares with an average transaction value of ₩6,863 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	1,157.40	1,723.17	992.69	1,682.77
2010	1,696.14	2,052.97	1,548.78	2,051.00
2011	2,070.08	2,231.74	1,644.11	1,825.74
2012 (through April 27)	1,826.37	2,049.28	1,826.37	1,975.35

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 ₩</u>	<u>Rounded Down to ₩</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⁾
1982	334	₩ 3,001	US\$ 4,279	9,704	₩ 6,667	US\$ 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	791	1,041,999	899,438	353,759	6,863,146	5,924,166
2012 (through April 20)	789	1,135,853	998,025	513,848	5,702,784	5,010,793

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 ₩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 depository 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 depository at the time of such proposed deposit.

We have agreed to grant such consent to the extent that the total number of shares on deposit with the depository would not exceed 116,583,985 at any time.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction 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 depositary 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 depositary issuing depositary 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

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, 2011, our authorized share capital is 1,000,000,000 shares. Pursuant to our articles of incorporation, we are authorized to issue shares with preferred dividend, non-voting shares, class shares with conversion rights, class shares with redemption rights and shares with a combination of all or any of the foregoing characteristics (collectively, "Class Shares"), as well as common shares. Subject to applicable laws and regulations, we are authorized to issue Class Shares up to one-half of all of our issued and outstanding shares.

Under our articles of incorporation, dividends on non-voting shares with preferred dividend are required to be at least 1% per annum of the par value and the board of directors must determine at the time of issuance of such shares the dividend rate, type of distributable properties, method of determining the value of distributable properties and conditions on payment of dividends. Also, we may, pursuant to a resolution of the board of directors, issue such non-voting shares with preferred dividend as redeemable shares that may be redeemed with profits at the relevant shareholder's or our discretion, up to one-half of all of our issued and outstanding shares.

In addition, pursuant to a resolution of the board of directors, we may issue shares that are convertible into common shares or Class Shares at the request of the relevant shareholders, up to 20% of all of our issued and outstanding shares. The period during which a relevant shareholder may make a request for conversion may be determined by a resolution of the board of directors and must be a period between one and ten years from the issue date.

Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, which may be common shares or Class Shares having additional features as prescribed under the Korean Commercial Code. See "—Voting Rights."

As of the date of this annual report, 386,351,693 shares of common stock were issued and 386,351,693 shares of common stock were outstanding. No Class Shares are currently outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 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 March 30, 2012, our officers, directors and employees held options to purchase 2,071,938 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).

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 non-voting shares with preferred dividend will be the same type of non-voting shares with preferred dividend held by such holders.

Preemptive Rights and Issuances of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all stockholders who have preemptive rights and who are listed on the stockholders’ register as of the applicable record date. Our stockholders will be entitled to subscribe for any

newly issued shares in proportion to their existing shareholdings. However, as provided in our articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are:

(1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to an employee stock ownership association, (3) issued upon exercise of stock options pursuant to the Financial Investment Services and Capital Markets Act, (4) issued for the issuance of our depositary receipts, (5) issued to certain foreign or domestic financial institutions or institutional investors to raise funds to meet urgent needs for our management or operations or (6) issued primarily to a third party who has contributed to the management of our business, including by providing financing, credit, advanced financing technique, know-how or entering into close business alliances, except that, in the case of issuances of new shares under (1), (4), (5) and (6) above, the number of new shares issued to persons other than existing stockholders may not exceed 50% of our total issued and outstanding capital stock.

Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the stockholders' register is closed) prior to the record date. We will notify the stockholders or persons other than existing stockholders, who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If such stockholders or persons fail to subscribe on or before such deadline, their preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, members of a company's employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then issued and outstanding.

Voting Rights

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we 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 non-voting shares with preferred dividend the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of non-voting shares with preferred dividend will be entitled to exercise voting rights from the general stockholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the non-voting shares with preferred dividend. Holders of such enfranchised non-voting shares with preferred dividend will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that to amend the articles of incorporation, which is also required for any change to the authorized share capital of the company, and in certain other instances, including removal

of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company, acquisition of a part of the business of any other company having a material effect on the business of the company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interest of the holders of Class Shares are adversely affected, a resolution must be adopted by a separate meeting of holders of Class Shares. Such a resolution may be adopted if the approval is obtained from stockholders of at least two-thirds of the Class Shares present or represented at such meeting and such shares also represent at least one-third of the total issued and outstanding Class Shares of the company.

A stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will first be distributed to holders of Class Shares which have a preference right in respect of the distribution of residual properties as determined by our board of directors at the time of their issuance, and the residue thereafter will be distributed to the other stockholders in proportion to the number of shares held by them.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We 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

Under the Korean Commercial Code, we may acquire our own shares upon a resolution of a general meeting of shareholders by either (i) purchasing them on a stock exchange or (ii) purchasing a number of shares, other than the redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to their existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the total purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

Additionally, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Company Act and after submission of certain reports to the 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 depository'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) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes ("PFIC"). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, we believe that we were not a PFIC in our 2010 or 2011 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 2012 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 a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation with its head office, principal place of business or place of effective management in Korea; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Common Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 22.0% (inclusive of local income surtax). If you are a 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 depository.

Taxation of Capital Gains From Transfer of Common Shares or ADSs

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11% (inclusive of local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's

country of tax residence. See “—Tax Treaties” below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regards to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any person with which you have a certain special relationship) 25% or more of the total issued and outstanding shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Under Korean tax law, ADSs are viewed as shares of common stock for capital gains tax purposes. Accordingly, capital gains from the sale or disposition of ADSs are taxed (if such sale or disposition constitutes a taxable event) as if such gains are from the sale or disposition of the underlying common shares. Capital gains that you earn (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside of Korea will generally be exempt from Korean income taxation by virtue of the 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, if you transfer ADSs after having converted the underlying common shares, such exemption under the STTCL will not apply and you will be required to file a corporate income tax return and pay tax in Korea with respect to any capital gains derived from such transfer unless the purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays such tax.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of our common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of the common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, such financial investment company is required to withhold Korean tax from the sales price in an amount equal to the lower of (1) 11% (inclusive of local income surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. 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 or Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividend income or capital gains is substantially less than the tax generally imposed by the United States on corporate profits and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States

income tax treaty, the exemption on capital gains does not apply if 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, 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.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 40% of the non-reported tax amount or 10% to 40% of under-reported tax amount. Also, a failure to timely pay securities transaction tax will result in a penalty equal to 10.95% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

Item 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

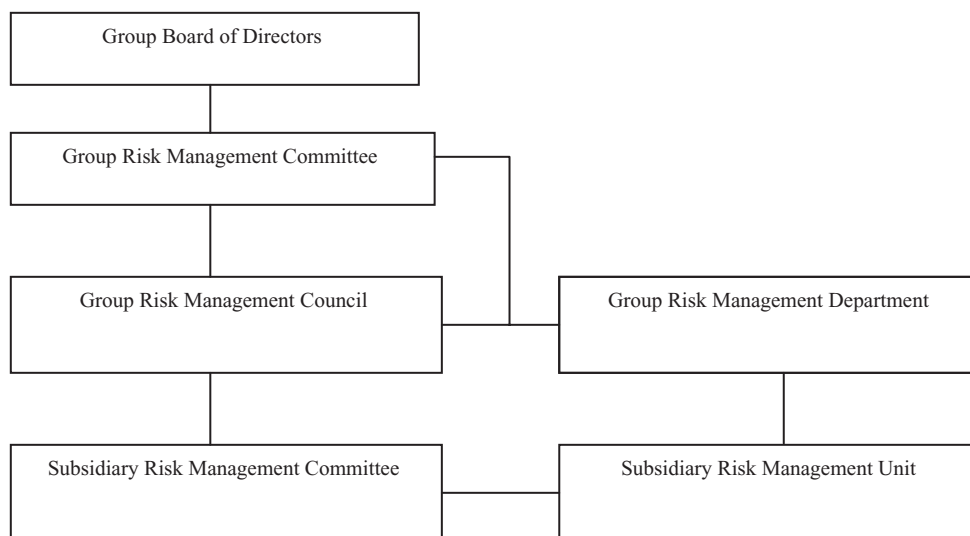
As a financial services provider, we are exposed to various risks related to our lending and trading businesses, our funding activities and our operating environment, principally through Kookmin Bank, our banking subsidiary. Our goal in risk management is to ensure that we identify, measure, monitor 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 four 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 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.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. We determine the creditworthiness of each type of borrower or counterparty through reviews conducted by our credit experts and through our credit rating systems, and we set a credit limit for each borrower or counterparty.

We assess and manage all credit exposures. We measure expected losses and economic capital on assets (whether on- or off-balance sheet) that are subject to credit risk management and use expected losses and economic capital as management indicators. We manage credit risk by allocating credit risk economic capital limits. In addition, we control credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to particular industries or borrowers. Credit exposures that we assess and manage include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Our risk appetite, which is the ratio of our required 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 ₩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 ₩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 ₩30 billion, small- and medium-sized enterprises to which we have exposures (in the form of securities or loans) of over ₩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 sales growth rate and risk concentration 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 25% of its Tier I and Tier II capital for a single *chaebol*, and within 10% of its Tier I and Tier II capital for an individual large corporation.

We manage and control exposure limits on a daily basis. The principal system that we use for this purpose is the Total Exposure Management System. This system allows us to monitor and control our total exposure to large corporations, *chaebols* and industries. We monitor our exposure to large corporations to which we have an exposure of ₩30 billion or more, individual corporations to which we have an exposure of more than ₩20 billion, and also our exposure to the 54 *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 17 *chaebols* selected for monitoring by the Senior 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, stock price 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 IFRS. We believe, however, that certain of these products are effective as economic hedges.

We use derivative instruments to hedge our market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of our hedging strategy is to manage our market risk within established limits. We use the following hedging instruments to manage relevant risks:

- to hedge interest rate risk arising from its trading activities, the Trading Department of Kookmin Bank occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;
- to hedge stock price risk arising from its trading activities, the Trading 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, 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 Financial Instruments" and Notes 3.3 and 6 of the notes to our consolidated financial statements. For example, each year, Kookmin Bank's Risk Management Department reviews the existing pricing and valuation models, with a focus on their underlying modeling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with Kookmin Bank's Trading Department, the Risk Management Department recommends potential valuation models to Kookmin Bank's Fair Value Evaluation Committee. Upon approval by Kookmin Bank's Fair Value Evaluation Committee, the selected valuation models are reported to its Market Risk Management Subcommittee.

We monitor market risk arising from trading activities of our business groups and departments. The market risk measurement model we use for both our Won-denominated trading operations and foreign currency-denominated trading operations is implemented through our integrated market risk management system called Adaptiv, which enables us to generate consistent VaR numbers for all trading activities.

Value at Risk analysis. We use 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, 2010 and 2011, at a 99% confidence level for a one-day holding period, for interest risk, stock price risk and foreign exchange risk relating to its trading activities. The following figures were calculated on a non-consolidated basis.

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(in billions of Won)	
Risk categories:		
Interest risk	₩ 3.6	₩ 1.9
Stock price risk	0.1	1.2
Foreign exchange risk	5.2	4.9
Less: diversification	<u>(3.3)</u>	<u>(3.2)</u>
Diversified VaR for overall trading activities	<u>₩ 5.6</u>	<u>₩ 4.8</u>

In 2011, the average, high, low and ending amounts of daily VaR for Kookmin Bank relating to its trading activities (at a 99% confidence level for a one-day holding period) were as follows:

	Trading activities VaR for 2011			As of December 31, 2011
	Average	Minimum	Maximum	
	(in millions of Won)			
Interest risk	₩2,537	₩1,430	₩ 4,019	₩ 1,866
Stock price risk	725	86	2,569	1,161
Foreign exchange risk	6,464	4,187	12,610	4,882
Less: diversification				(3,141)
Diversified VaR for overall trading activities	6,206	4,000	11,992	<u>₩ 4,768</u>

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, 2011, Kookmin Bank’s trading securities portfolio, which represents most of our trading risk, could have lost ₩328 billion for an assumed short-term extreme decline of approximately 25% in the equity market and an approximate 103 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, 2011, the VaR of Kookmin Bank’s interest risk from trading was ₩2 billion and the weighted average duration, or weighted average maturity, of its Won-denominated debt securities at fair value through profit or loss was approximately 2.3 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 2010 and 2011. 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.

	<u>As of December 31, ⁽¹⁾</u>	
	<u>2010</u>	<u>2011</u>
	(in millions of US\$)	
Currency:		
U.S. dollars	US\$ (30.3)	US\$ (83.7)
Japanese yen	(6.9)	(15.1)
Euro	1.8	(3.3)
Kazakhstan tenge	296.5	338.3
Others	12.9	(20.2)
Total	<u>US\$ 274.0</u>	<u>US\$ 216.0</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, 2011, Kookmin Bank's equity trading position was ₩39 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 interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2011.

	As of December 31, 2011 ⁽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	₩ 99,078	₩50,673	₩ 23,202	₩ 5,403	₩ 2,468	₩180,824
Securities	5,646	2,408	2,985	11,058	6,824	28,921
Others	5,045	184	106	159	17	5,511
Total	<u>₩109,769</u>	<u>₩53,265</u>	<u>₩ 26,293</u>	<u>₩16,620</u>	<u>₩ 9,309</u>	<u>₩215,256</u>
Interest bearing liabilities:						
Deposits	₩ 78,235	₩29,975	₩ 52,299	₩15,625	₩11,562	₩187,696
Borrowings	3,779	—	—	—	—	3,779
Others	9,455	512	1,802	5,243	1,608	18,620
Total	<u>₩ 91,469</u>	<u>₩30,487</u>	<u>₩ 54,101</u>	<u>₩20,868</u>	<u>₩13,170</u>	<u>₩210,095</u>
Sensitivity gap	18,300	22,778	(27,808)	(4,248)	(3,861)	5,161
Cumulative gap	18,300	41,078	13,270	9,022	5,161	
% of total assets	8.5%	19.1%	6.2%	4.2%	2.4%	
Foreign currency-denominated Interest earning assets:						
Due from banks	₩ 325	₩ —	₩ 35	₩ —	₩ —	₩ 360
Loans	7,270	464	582	504	16	8,836
Securities	456	49	38	330	124	997
Others	4,958	1,569	361	65	—	6,953
Total	<u>₩ 13,009</u>	<u>₩ 2,082</u>	<u>₩ 1,016</u>	<u>₩ 899</u>	<u>₩ 140</u>	<u>₩ 17,146</u>
Interest bearing liabilities:						
Deposits	₩ 2,301	₩ 1,684	₩ 315	₩ 77	₩ —	₩ 4,377
Borrowings	6,299	1,842	1,563	65	46	9,815
Others	2,646	346	273	64	—	3,329
Total	<u>₩ 11,246</u>	<u>₩ 3,872</u>	<u>₩ 2,151</u>	<u>₩ 206</u>	<u>₩ 46</u>	<u>₩ 17,521</u>
Sensitivity gap	1,763	(1,790)	(1,135)	693	94	(375)
Cumulative gap	1,763	(27)	(1,162)	(469)	(375)	
% of total assets	10.3%	(0.2)%	(6.8)%	(2.7)%	(2.2)%	

⁽¹⁾ The numbers are prepared on a non-consolidated basis 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 2011, our asset and liability duration gap was negative and it moved between (-)0.090 years and (-)0.289 years. Accordingly, our net asset value would have declined between ₩197 billion and ₩607 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 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.

Won denominated		<u>Asset duration</u>	<u>Liability duration</u>	<u>Duration gap</u>	<u>Net asset value change</u>
<u>Date</u>		(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2011	.....	0.533	0.821	(0.268)	(571)
December 31, 2011	.....	0.600	0.714	(0.103)	(224)

Foreign-currency denominated		<u>Asset duration</u>	<u>Liability duration</u>	<u>Duration gap</u>	<u>Net asset value change</u>
<u>Date</u>		(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2011	.....	0.402	0.300	0.115	(16)
December 31, 2011	.....	0.320	0.274	0.046	(7)

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 summarizes Kookmin Bank's interest rate risk, taking into account asset and liability durations as of December 31, 2011.

	As of December 31, 2011					
	3 Months or Less	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages and maturities in years)					
Won-denominated:						
Asset position	₩109,769	₩53,265	₩ 26,293	₩16,620	₩ 9,309	₩215,256
Liability position	91,469	30,487	54,101	20,868	13,170	210,095
Gap	18,300	22,778	(27,807)	(4,248)	(3,861)	5,161
Average maturity	0.275	0.361	0.718	2.156	3.070	
Interest rate volatility	1.59%	2.48%	2.93%	2.50%	2.55%	
Amount at risk	80	204	(586)	(229)	(302)	(832)
Foreign currency-denominated:						
Asset position	₩ 13,009	₩ 2,082	₩ 1,016	₩ 899	₩ 140	₩ 17,146
Liability position	11,246	3,872	2,151	206	46	17,520
Gap	1,763	(1,790)	(1,135)	694	94	(375)
Average maturity	0.243	0.481	0.791	1.859	3.900	
Interest rate volatility	1.66%	1.65%	1.61%	2.18%	2.47%	
Amount at risk	(7)	14	14	(28)	(9)	(16)

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, 2011 in accordance with Financial Services Commission regulations:

<u>Won accounts:</u>	<u>1 Month or Less</u>
	<u>(in billions of Won, except percentages)</u>
Assets (A)	₩51,086
Liabilities (B)	42,870
Liquidity gap	8,216
Liquidity ratio (A/B)	119.16%
Limit	100%

	<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\$ 4,464	US\$ 9,900	US\$ 17,624
Foreign currency liabilities	2,839	8,095	16,747
Maturity gap	1,625	1,804	877
Cumulative gap (A)	1,625	1,804	877
Total assets (B)	38,683	38,683	38,697
Liquidity gap ratio (A/B)	4.20%	4.66%	105.23% ⁽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;
- examines operational risks arising in connection with the development of, changes in or discontinuance of products, policies or systems;
- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site.

- refines bank-wide operational risk policies and procedures;
- provides appropriate training and support to business line operational risk managers; and
- reports overall operational risk status to our senior management.

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 auditors). In particular, we have established group-wide internal guidelines with respect to our subsidiaries’ reporting requirements. Our subsidiaries review their operations and their level of compliance with internal control systems and business processes on a periodic basis and, as part of this process, they are required to report any problems discovered and any remedial actions taken to our chief compliance officer, who is responsible for reporting to our Audit Committee. Based on the results of these reports, or on an ad hoc basis in response to any problem or potential problem that it identifies, the Audit Committee may direct a subsidiary to conduct an audit of its operations or, if it chooses to do so, conduct its own audit of those operations. The Audit Committee interacts on a regular basis with our Audit Department, Compliance Supporting Department and our independent auditors. In carrying out these duties, the Audit Committee ultimately protects our property for the benefit of our shareholders, investors and customers by independently monitoring our management.

Our Audit Department supports our Audit Committee in monitoring our accounting and business operations and overseeing the management of our subsidiaries’ internal control systems by performing the following activities:

- general audits, which include full-scale audits of the overall operations performed according to an annual audit plan, and sectional audits of selected operations; and
- special audits of troubled or weak operations, which are performed when our Audit Committee or executive officer responsible for audits deems it necessary or pursuant to requests by our board, executive officers or supervisory authorities, such as the Financial Supervisory Service.

The Financial Supervisory Service periodically conducts a general examination of our operations. It also performs specific audits on particular aspects of our operations, such as risk management, credit monitoring and liquidity, as the need arises.

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.

In 2009, Kookmin Bank obtained ISO 27001 certification, which relates to information security. In 2011, Kookmin Bank also obtained ISO 20000 certification, which relates to IT service management, and BS 25999 certification, which relates to business continuity management. Kookmin Bank is the first Korean bank to have obtained all three such international certifications.

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
Depositary 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.

Depositary 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. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depositary Trust Company, or DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the 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 depositary. You will receive prior notice of such changes.

Fees and Payments from the Depositary to Us

In 2011, we received the following payments from the depositary:

Reimbursement of listing fees:	\$ 38,000
Reimbursement of SEC filing fees:	\$ 40,587
Reimbursement of settlement infrastructure fees (including DTC fees):	\$ 60,776
Reimbursement of expenses related to proxy process (printing, postage and distribution) and ADS holders identification:	\$ 55,554
Reimbursement of legal fees:	\$340,305
Reimbursement of expenses related to our investor relations activities (investor conferences and investor relations agency fees, etc.):	\$361,997

In addition, as part of its service to us, the depositary 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, 2011. 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, 2011 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 IFRS as issued by the IASB. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, as stated in its report included herein which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2011

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2011 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 Young Jin Kim 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, 2010 and 2011:

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	<u>(in millions of Won)</u>	
Audit fees	₩5,474	₩5,018
Audit-related fees	3,062	93
Tax fees	—	—
All other fees	—	—
Total fees	<u>₩8,536</u>	<u>₩5,111</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 financial statements. Our Audit Committee has implemented a policy regarding pre-approval of certain other services provided by our independent auditors to our subsidiaries that the Audit Committee has deemed as not affecting their independence. Under this policy, pre-approvals for the following services to our subsidiaries have been granted by our Audit Committee to each of our subsidiaries' audit committees: (i) services related to the audit of financial statements prepared in accordance with IFRS as adopted by Korea and internal controls under Korean laws and regulations; (ii) general tax advisory services; (iii) 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

KB Financial Group

Director independence

Listed companies must have a majority of independent directors.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as 9 out of 13 directors are non-executive directors.

Executive Session

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

Our non-executive directors hold monthly executive sessions in accordance with the Regulation of the Board of Directors.

Nomination/Corporate Governance Committee

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

Our Non-executive Director Nominating Committee is generally composed of four non-executive directors and our chief executive officer.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

We maintain an Evaluation and Compensation Committee composed of five non-executive directors.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

We maintain an Audit Committee composed of five non-executive directors. Accordingly, we are in compliance with 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.

Our Audit Committee has five members, as described above.

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.

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.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

We have adopted, but have not disclosed, corporate governance guidelines.

Item 16H. Mine Safety Disclosure

Not Applicable

Item 17. FINANCIAL STATEMENTS

Not Applicable

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. EXHIBITS

(a) List of Financial Statements:

	<u>Page</u>
Audited consolidated financial statements of KB Financial Group Inc. and subsidiaries, prepared in accordance with IFRS as issued by the IASB	
Report of Samil PricewaterhouseCoopers, independent registered public accounting firm	F-1
Consolidated statements of financial position as of January 1, 2010 and December 31, 2010 and 2011	F-2
Consolidated statements of comprehensive income for the years ended December 31, 2010 and 2011	F-4
Consolidated statements of changes in equity for the years ended December 31, 2010 and 2011	F-6
Consolidated statements of cash flows for the years ended December 31, 2010 and 2011	F-9
Notes to consolidated financial statements	F-11

(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 ₩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.

* 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 40 of the consolidated financial statements of the registrant included in this annual report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of KB Financial Group Inc.:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of KB Financial Group Inc. (the “Company”) and subsidiaries as of December 31, 2011 and 2010, and January 1, 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, 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 audits 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits 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.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
April 27, 2012

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JANUARY 1, 2010 AND DECEMBER 31, 2010 AND 2011

	<u>2010.01.01</u>	<u>2010.12.31</u>	<u>2011.12.31</u>	<u>2011.12.31</u>
	(In millions of Korean won)			Translation into U.S. dollars (Note 3) (In thousands)
ASSETS				
Cash and due from financial institutions	₩ 9,102,630	₩ 6,829,828	₩ 9,178,125	US\$ 7,922,421
Financial assets at fair value through profit and loss	4,592,491	4,013,313	6,326,104	5,460,599
Derivative financial assets	3,392,391	2,595,121	2,448,455	2,113,470
Loans	196,686,844	197,621,004	212,107,027	183,087,636
Financial investments	35,036,710	36,189,650	35,432,182	30,584,534
Investments in associates and joint ventures	614,717	723,411	892,132	770,075
Property and equipment	3,257,911	3,150,260	3,186,020	2,750,125
Investment property	67,977	52,921	51,552	44,499
Intangible assets	402,577	504,920	468,441	404,351
Deferred income tax assets	16,504	4,045	22,329	19,275
Assets held for sale	20,160	9,353	9,931	8,572
Other assets	6,968,059	7,076,796	7,478,519	6,455,347
Total assets	<u>₩260,158,971</u>	<u>₩258,770,622</u>	<u>₩277,600,817</u>	<u>US\$239,620,904</u>
LIABILITIES				
Financial liabilities at fair value through profit and loss	₩ 1,364,223	₩ 1,294,859	₩ 1,388,079	US\$ 1,198,169
Deposits	169,065,043	179,862,071	190,337,590	164,296,582
Debts	13,834,104	11,744,389	16,823,838	14,522,088
Derivative financial liabilities	3,138,394	2,236,359	2,059,573	1,777,793
Debentures	38,661,962	29,107,316	27,069,879	23,366,317
Provisions	576,154	1,020,070	797,739	688,597
Current income tax liabilities	99,752	29,641	588,825	508,265
Deferred income tax liabilities	404,639	283,575	220,842	190,628
Other liabilities	13,584,012	13,526,412	15,214,657	13,133,065
Total liabilities	<u>₩240,728,283</u>	<u>₩239,104,692</u>	<u>₩254,501,022</u>	<u>US\$219,681,504</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF JANUARY 1, 2010 AND DECEMBER 31, 2010 AND 2011

	<u>2010.01.01</u>	<u>2010.12.31</u>	<u>2011.12.31</u>	<u>2011.12.31</u>
	(In millions of Korean won)			Translation into U.S. dollars (Note 3) (In thousands)
TOTAL EQUITY				
Capital stock	₩ 1,931,758	₩ 1,931,758	₩ 1,931,758	US\$ 1,667,465
Capital surplus	15,990,618	15,990,278	15,841,824	13,674,427
Accumulated other comprehensive income	350,941	430,572	191,642	165,422
Retained earnings	2,553,185	2,620,888	4,952,751	4,275,141
Treasury shares	(2,476,809)	(2,476,809)	—	—
Equity attributable to shareholders of the company	18,349,693	18,496,687	22,917,975	19,782,455
Non-controlling interests	1,080,995	1,169,243	181,820	156,945
Total equity	<u>19,430,688</u>	<u>19,665,930</u>	<u>23,099,795</u>	<u>19,939,400</u>
Total liabilities and equity	<u>₩260,158,971</u>	<u>₩258,770,622</u>	<u>₩277,600,817</u>	<u>US\$239,620,904</u>

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

	<u>2010</u>	<u>2011</u>	<u>2011</u>
	(In millions of Korean won, except per share amounts)		Translation into U.S. dollars (Note 3) (In thousands, except per share amounts)
Interest income	₩13,051,936	₩13,956,257	US\$12,046,834
Interest expense	(6,878,132)	(6,851,745)	(5,914,325)
Net interest income	<u>6,173,804</u>	<u>7,104,512</u>	<u>6,132,509</u>
Fee and commission income	2,481,451	2,829,754	2,442,602
Fee and commission expense	(776,737)	(1,035,004)	(893,401)
Net fee and commission income	<u>1,704,714</u>	<u>1,794,750</u>	<u>1,549,201</u>
Net gains (losses) on financial assets/liabilities at fair value through profit and loss	814,808	1,035,867	894,145
Net other operating income (expenses)	<u>(1,067,343)</u>	<u>(1,092,009)</u>	<u>(942,606)</u>
Employee compensation and benefits	(2,406,852)	(1,870,864)	(1,614,901)
Depreciation and amortization	(347,692)	(342,493)	(295,634)
Other general and administrative expenses	<u>(1,612,085)</u>	<u>(1,718,451)</u>	<u>(1,483,342)</u>
General and administrative expenses	<u>(4,366,629)</u>	<u>(3,931,808)</u>	<u>(3,393,877)</u>
Operating profit before provision for credit losses	<u>3,259,354</u>	<u>4,911,312</u>	<u>4,239,372</u>
Provision for credit losses	<u>(2,871,417)</u>	<u>(1,512,978)</u>	<u>(1,305,980)</u>
Net operating profit	<u>387,937</u>	<u>3,398,334</u>	<u>2,933,392</u>
Share of profit of associates and joint ventures	(210,594)	4,963	4,284
Net other non-operating income (expense)	<u>(27,975)</u>	<u>(142,491)</u>	<u>(122,996)</u>
Profit before income tax	<u>149,368</u>	<u>3,260,806</u>	<u>2,814,680</u>
Tax income (expense)	<u>70,541</u>	<u>(832,234)</u>	<u>(718,373)</u>
Profit for the year	<u>₩ 219,909</u>	<u>₩ 2,428,572</u>	<u>US\$ 2,096,307</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

	<u>2010</u>	<u>2011</u>	<u>2011</u>
	(In millions of Korean won, except per share amounts)		Translation into U.S. dollars (Note 3) (In thousands, except per share amounts)
Exchange differences on translating foreign operations	₩ (7,127)	₩ 5,602	US\$ 4,836
Change in value of financial investments	108,461	(239,596)	(206,816)
Shares of other comprehensive income of associates and joint ventures	(2,005)	(433)	(374)
Cash flow hedges	—	(1,321)	(1,140)
Other comprehensive income (loss) for the year, net of tax	<u>99,329</u>	<u>(235,748)</u>	<u>(203,494)</u>
Total comprehensive income for the year	<u>₩319,238</u>	<u>₩2,192,824</u>	<u>US\$1,892,813</u>
Profit attributable to:			
Shareholders of the parent entity	₩146,600	₩2,373,026	US\$2,048,361
Non-controlling interests	73,309	55,546	47,946
	<u>₩219,909</u>	<u>₩2,428,572</u>	<u>US\$2,096,307</u>
Total comprehensive income attributable to:			
Shareholders of the parent entity	₩226,231	₩2,134,096	US\$1,842,120
Non-controlling interests	93,007	58,728	50,693
	<u>₩319,238</u>	<u>₩2,192,824</u>	<u>US\$1,892,813</u>
Earnings per share			
Basic earnings per share	₩ 427	₩ 6,461	US\$ 5.58
Diluted earnings per share	427	6,445	5.56

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

	<u>Equity attributable to equity holders of the parent company</u>								
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Accumulated other comprehensive income</u>			<u>Retained earnings</u>	<u>Treasury share</u>	<u>Non-controlling interest</u>	<u>Total equity</u>
			<u>comprehensive income</u>	<u>Retained earnings</u>	<u>Treasury share</u>				
(In millions of Korean won)									
Balance at January 1, 2010	₩1,931,758	₩15,990,618	₩ 350,941	₩2,553,185	₩(2,476,809)	₩ 1,080,995	₩19,430,688		
Comprehensive income									
Profit for the year	—	—	—	146,600	—	73,309	219,909		
Change in value of financial investments	—	—	88,593	—	—	19,868	108,461		
Shares of other comprehensive income of associates and joint ventures	—	—	(2,005)	—	—	—	(2,005)		
Exchange differences on translating foreign operations	—	—	(6,957)	—	—	(170)	(7,127)		
Others	—	(340)	—	—	—	59,841	59,501		
Total comprehensive income (loss)	—	(340)	79,631	146,600	—	152,848	378,739		
Transactions with shareholders									
Dividends paid to shareholders of the parent company	—	—	—	(78,897)	—	—	(78,897)		
Dividends paid to holders of hybrid capital instruments	—	—	—	—	—	(64,600)	(64,600)		
Total transactions with shareholders	—	—	—	(78,897)	—	(64,600)	(143,497)		
Balance at December 31, 2010	₩1,931,758	₩15,990,278	₩ 430,572	₩2,620,888	₩(2,476,809)	₩ 1,169,243	₩19,665,930		

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

	<u>Equity attributable to equity holders of the parent company</u>						<u>Total equity</u>
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Accumulated other comprehensive income</u>		<u>Treasury share</u>	<u>Non-controlling interest</u>	
			<u>Retained earnings</u>	<u>Retained earnings</u>			
	(In millions of Korean won)						
Balance at January 1, 2011	₩1,931,758	₩15,990,278	₩ 430,572	₩2,620,888	₩(2,476,809)	₩ 1,169,243	₩19,665,930
Comprehensive income							
Profit for the year	—	—	—	2,373,026	—	55,546	2,428,572
Change in value of financial investments	—	—	(242,668)	—	—	3,072	(239,596)
Shares of other comprehensive income of associates and joint ventures	—	—	(433)	—	—	—	(433)
Cash flow hedges	—	—	(1,321)	—	—	—	(1,321)
Currency translation differences	—	—	5,492	—	—	110	5,602
Others	—	(394)	—	—	—	—	(394)
Total comprehensive income (loss)	—	(394)	(238,930)	2,373,026	—	58,728	2,192,430
Transactions with shareholders							
Dividends paid to shareholders of the parent company	—	—	—	(41,163)	—	—	(41,163)
Dividends paid to holders of hybrid capital instruments	—	—	—	—	—	(46,151)	(46,151)
Disposal of hybrid capital instruments	—	—	—	—	—	(1,000,000)	(1,000,000)
Disposal of treasury share and others	—	(148,060)	—	—	2,476,809	—	2,328,749
Total transactions with shareholders	—	(148,060)	—	(41,163)	2,476,809	(1,046,151)	1,241,435
Balance at December 31, 2011	<u>₩1,931,758</u>	<u>₩15,841,824</u>	<u>₩ 191,642</u>	<u>₩4,952,751</u>	<u>₩ —</u>	<u>₩ 181,820</u>	<u>₩23,099,795</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

Equity attributable to equity holders of the parent company							
	Capital Stock	Capital Surplus	Accumulated other comprehensive income	Retained earnings	Treasury share	Non-controlling Interest	Total equity
(Translation into U.S. dollars (Note 3) (In thousands))							
Balance at January 1,							
2011	US\$1,667,465	US\$13,802,571	US\$ 371,663	US\$2,262,312	US\$(2,137,945)	US\$ 1,009,273	US\$16,975,339
Comprehensive income							
Profit for the year . . .	—	—	—	2,048,361	—	47,946	2,096,307
Change in value of financial investments	—	—	(209,468)	—	—	2,652	(206,816)
Shares of other comprehensive income of associates and joint ventures	—	—	(374)	—	—	—	(374)
Cash flow hedges . . .	—	—	(1,140)	—	—	—	(1,140)
Currency translation differences	—	—	4,741	—	—	95	4,836
Others	—	(340)	—	—	—	—	(340)
Total comprehensive income (loss)	—	(340)	(206,241)	2,048,361	—	50,693	1,892,473
Transactions with shareholders							
Dividends paid to shareholders of the parent company . . .	—	—	—	(35,532)	—	—	(35,532)
Dividends paid to holders of hybrid capital instruments	—	—	—	—	—	(39,837)	(39,837)
Disposal of hybrid capital instruments	—	—	—	—	—	(863,184)	(863,184)
Disposal of treasury share and others . . .	—	(127,804)	—	—	2,137,945	—	2,010,141
Total transactions with shareholders	—	(127,804)	—	(35,532)	2,137,945	(903,021)	1,071,588
Balance at December 31,							
2011	US\$1,667,465	US\$13,674,427	US\$ 165,422	US\$4,275,141	US\$ —	US\$ 156,945	US\$19,939,400

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, 2010 and 2011

	2010	2011	2011
	(In millions of Korean won)		Translation into U.S. dollars (Note 3) (In thousands)
Cash flows from operating activities:			
Profit for the year	₩ 219,909	₩ 2,428,572	US\$ 2,096,307
Adjustment for non-cash items			
Net gains losses (gains) on financial assets/liabilities at fair value through profit and loss	(409,245)	(391,197)	(337,675)
Net losses (gains) on derivative financial instruments for hedging purposes	(102,692)	(107,371)	(92,681)
Adjustment of fair value of derivative financial instruments	32,466	207,522	179,130
Provision for credit loss	2,871,417	1,512,978	1,305,980
Net gains on financial investments	(112,551)	(481,459)	(415,589)
Share of profit (loss) of associates and joint ventures	210,594	(4,963)	(4,284)
Depreciation and amortization expense	347,834	342,656	295,775
Other net losses on property and equipment	426	18,533	15,997
Share-based payments (reversal)	(4,850)	(7,609)	(6,568)
Legal reserve appropriation	811,483	673,259	581,147
Changes in provision for accrued severance benefits	151,343	204,337	176,381
Net interest income	17,943	84,470	72,913
Losses (gains) on foreign currency translation	666,451	273,971	236,488
Other income (expenses)	129,629	130,206	112,394
	<u>4,610,248</u>	<u>2,455,333</u>	<u>2,119,407</u>
Changes in operating assets and liabilities			
Financial asset at fair value through profit and loss	606,154	(2,370,999)	(2,046,611)
Derivative financial instruments	421,458	481,502	415,625
Loans	(3,774,205)	(17,023,252)	(14,694,219)
Deferred income tax assets	19,145	—	—
Other assets	2,706,174	(877,081)	(757,083)
Financial liabilities at fair value through profit and loss	(126,847)	146,638	126,576
Deposits	11,075,939	10,716,619	9,250,426
Deferred income tax liabilities	(143,006)	(13,150)	(11,351)
Other liabilities	(954,691)	48,628	41,975
	<u>9,830,121</u>	<u>(8,891,095)</u>	<u>(7,674,662)</u>
Net cash generated from operating activities	<u>14,660,278</u>	<u>(4,007,190)</u>	<u>(3,458,947)</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2011

	<u>2010</u>	<u>2011</u>	<u>2011</u>
	(In millions of Korean won)		Translation into U.S. dollars (Note 3) (In thousands)
Cash flows from investing activities:			
Disposal in financial investments	₩ 33,678,653	₩ 22,875,143	US\$ 19,745,484
Acquisition in financial investments	(34,569,523)	(21,918,460)	(18,919,689)
Decrease in investments in associates	7,885	12,120	10,462
Acquisition in investments in associates	(329,177)	(176,105)	(152,012)
Disposal of property and equipment	2,148	859	741
Acquisition of property and equipment	(120,779)	(261,905)	(226,073)
Disposal of intangible assets	—	10,353	8,936
Acquisition of intangible assets	(193,123)	(105,341)	(90,928)
Acquisition of subsidiaries, net of cash acquired	65,913	—	—
Others	(1,071,933)	251,888	217,427
Net cash provided by (used in) investing activities	<u>(2,529,936)</u>	<u>688,552</u>	<u>594,348</u>
Cash flows from financing activities:			
Net cash flows from derivative financial instrument for hedging purposes	(27,658)	20,733	17,896
Increase in debts	(1,979,461)	5,453,721	4,707,571
Increase in debentures	8,340,121	9,665,174	8,342,834
Decrease in debentures	(18,047,460)	(11,607,211)	(10,019,172)
Disposal of treasury share	—	2,281,524	1,969,378
Redemption of hybrid capital instruments	—	(1,000,000)	(863,185)
Dividends paid to holders of hybrid capital instruments	(64,600)	(46,331)	(39,992)
Dividends paid to shareholders of the parent company	(78,897)	(41,163)	(35,532)
Others	73,627	48,434	41,808
Net cash provided by (used in) financing activities	<u>(11,784,328)</u>	<u>4,774,881</u>	<u>4,121,607</u>
Effect of exchange rate changes on cash and cash equivalents	<u>36,931</u>	<u>32,982</u>	<u>28,469</u>
Net increase in cash and cash equivalents	<u>382,945</u>	<u>1,489,225</u>	<u>1,285,476</u>
Cash and cash equivalents at the beginning of the year	<u>2,868,634</u>	<u>3,251,579</u>	<u>2,806,715</u>
Cash and cash equivalents at the end of the year	<u>₩ 3,251,579</u>	<u>₩ 4,740,804</u>	<u>US\$ 4,092,191</u>

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

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Parent Company

KB Financial Group Inc. (the “Parent Company”) was incorporated on September 29, 2008, under the Financial Holding Companies Act of Korea. KB Financial Group Inc. and its subsidiaries (the “Group”) derive substantially all of their revenue and income from providing a broad range of banking and related financial services to consumers and corporations primarily in Korea and in selected international markets. The Parent Company’s principal business includes ownership and management of subsidiaries and associated companies that are engaged in financial services or activities. In 2011, Kookmin Bank spun off its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., and KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd.

The Parent Company’s paid in capital as of December 31, 2011 is ₩1,931,758 million. The Parent Company is authorized to issue up to 1,000 million shares. The Parent Company has been listed on the Korea Exchange (“KRX”) since October 10, 2008, and listed on the New York Stock Exchange (“NYSE”) for its American Depositary Shares (“ADS”) since September 29, 2008.

2. Basis of Preparation

2.1 Application of IFRS

The Group’s financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, is required for the consolidated financial statements.

Until December 31, 2010, the Group prepared its consolidated financial statements in accordance with both of the accounting principles generally accepted in the Republic of Korea (“K-GAAP”) and the accounting principles generally accepted in the U.S. (“U.S. GAAP”) for the SEC filings in the U.S. For the purposes of applying IFRS 1, *First-time Adoption of International Financial Reporting Standards*, the Group has determined the previous generally accepted accounting principles (“Previous GAAP”) to be K-GAAP. IFRS transition date and adoption date from previous GAAP were January 1, 2010 and January 1, 2011, respectively.

Exemptions from IFRS which the Group elected in accordance with IFRS 1 are as follows:

- Business combinations: For business combination transactions, which occurred prior to the transition date, IFRS 3, *Business Combinations*, is not applied retrospectively.
- Deemed cost as fair value or revalued amount: The Group applies the revalued amount reported under K-GAAP as deemed cost for certain tangible assets (land and building). Accordingly, gains on revaluation of tangible assets calculated under K-GAAP are reclassified as retained earnings and there is no effect on the financial statements except for the reclassification.
- Recovery and reserved liabilities included in cost of tangible assets: Changes in provisions associated with expected recovery or changes for tangible assets are not retroactively estimated from the time of initial acquisition. Changes in the amount of provisions are estimated only once at the transition date.
- The Group applied the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, prospectively for transfers of financial assets occurring on or after the transition date. Where the Group had derecognized financial assets before the transition date in accordance with previous K-GAAP, the Group did not recognize these assets even when the transfers did not meet the derecognition criteria under IFRS.
- Cumulative translation difference: Cumulative translation differences for all foreign operations existing on the transition date are deemed to be zero.

Reconciliations and descriptions of the effects of the transition from K-GAAP to IFRS, and from U.S. GAAP to IFRS, on the Group's equity as of January 1, 2010 and December 31, 2010, comprehensive income and cash flows for the year ended December 31, 2010, are described in Notes 46.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Group are as follows:

Amendments to IAS 1, *Presentation of Financial Statements*

According to the amendments to IAS 1, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. This amendment is required to be applied on a full retrospective basis. This amendment is effective for the Group as of January 1, 2013. The Group is assessing the impact of application of the amended IAS 1 on its consolidated financial statements.

Amendments to IAS 12, *Income Taxes*

According to the amendments to IAS 12, for the investment properties accounted for at fair value, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless there is evidence to the contrary. This amendment is effective for the Group as of January 1, 2012. The Group expects that the amendment does not affect the consolidated financial statements of the Group.

Amendments to IAS 19, *Employee Benefits*

According to the amendments to IAS 19, the corridor approach for actuarial gains and losses is not allowed anymore. Accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. Past service costs incurred under changes of plans are recognized immediately, and the amendment replaces the interest cost on the defined benefit obligation, and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. This amendment is effective for the Group as of January 1, 2013. The Group is assessing the impact of application of the amended IAS 19 on its consolidated financial statements.

Amendments to IAS 32, *Financial Instruments: Presentation*

The amendments to IAS 32 in December 2011 address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off', and that some gross settlement systems may be considered equivalent to net settlement. The amendments will be effective for the Group as of January 1, 2014. The Group is assessing the impact of application of the amended IAS 32 on its consolidated financial statements.

Amendments to IFRS 7, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Group as of January 1, 2012. The Group is assessing the impact of application of the amended IFRS 7 on its consolidated financial statements.

An additional amendment to IFRS 7 introduces new disclosures that address certain inconsistencies in the application of the existing offsetting criteria. The disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position, and analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. This amendment is effective for the Group as of January 1, 2013. The Group expects that the amendment will not have a material impact on the consolidated financial statements of the Group.

Enactment of IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the Group as of January 1, 2015. The Group is assessing the impact of application of IFRS 9.

Enactment of IFRS 10, *Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for the Group as of January 1, 2013. The Group is assessing the impact of application of IFRS 10 on its consolidated financial statements.

Enactment of IFRS 12, *Disclosures of Interest in Other Entities*

IFRS 12, *Disclosures of Interests in Other Entities* includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for the Group as of January 1, 2013. The Group is assessing the impact of application of IFRS 12.

Enactment of IFRS 11, *Joint Arrangements*

IFRS 11, *Joint Arrangements* introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group's investment in the joint venture partnership will be classified as a joint venture under the new rules. IFRS 11 is effective for the Group as of January 1, 2013. As the Group already applies the equity method in accounting for this investment, IFRS 11 will not have any impact on the amounts recognized in its financial statements.

Enactment of IFRS 13, *Fair value measurement*

IFRS 13, *Fair value measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. IFRS 13 is effective for the Group as of January 1, 2013. The Group expects that the amendment does not affect the consolidated financial statements of the Group.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency. Refer to Note 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and income (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Deferred income taxes

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

2.4.2 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques. Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks.

As described in the significant accounting policies in Note 3.3, 'Recognition and Measurement of Financial Instruments', diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Defined benefit obligation

The present value of defined benefit obligations is measured by independent actuaries using the Projected Unit Credit Method. It incorporates actuarial assumptions and variables such as future increases in salaries, rate of retirement, and discount rate amongst others.

3. Significant Accounting Policies

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

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group has established various special purpose entities (“SPE”s). Such SPEs are consolidated when the risks and rewards and substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group. These SPEs controlled by the Group are established with predetermined activities, so that the Group has the rights to obtain the majority of the benefits of the activities of the SPEs and may be exposed to risks incident to the activities of the SPEs. The Group retains the majority of the residual or ownership risks related to such SPE or its assets in order to obtain the benefits from its activities.

3.1.2 Associates and joint ventures

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

A joint venture is a contractual arrangement whereby the Group and other venturers undertake an economic activity that is subject to joint control.

Under the equity method, investments in associates and joint ventures are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and losses resulting from 'upstream' and 'downstream' transactions between the Group and investee are eliminated to the extent of the Group's interest in investee.

If associates and joint ventures use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and joint ventures and its carrying value and recognizes the amount as 'Share of profit or loss of associates and joint ventures' in the statements of comprehensive income.

3.1.3 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.4 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign Operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when, the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or loans and receivables. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received).

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group's Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

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

3.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative financial assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s key management personnel.

- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by IAS 39, *Financial Instruments: Recognition and measurement*.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial Investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest revenue measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

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

3.5.3 Loans and receivables

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

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

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

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of financial assets

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

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

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as available-for-sale financial assets includes a significant or prolonged decline in the fair value below its cost.

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

3.6.1 Loans and receivables

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

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

Individual assessment of impairment

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

Collective assessment of impairment

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

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

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

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-maturity financial assets

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

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates, currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or an unrecognized firm commitments (fair value hedge) and the risk of changes in cash flow (cash flow hedge).

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

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are classified as financial instruments held for trading and are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using effective interest method.

3.7.3 Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow hedge accounting is discontinued prospectively if the hedging instrument expires or sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the period in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 Embedded derivatives

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

3.7.5 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of the financial instrument is recognized as the transaction price and the difference is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

3.8 Property and equipment

3.8.1 Recognition and Measurement

All property and equipment that qualify for recognition as an asset are measured at its cost and subsequently carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. When part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

3.8.2 Depreciation

Land is not depreciated, whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method and estimated useful lives of the assets are as follows:

<u>Property and equipment</u>	<u>Depreciation method</u>	<u>Estimated useful lives</u>
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	3~5 years

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

3.9 Investment properties

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.10 Intangible assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

<u>Intangible assets</u>	<u>Amortization method</u>	<u>Estimated useful lives</u>
Industrial property rights	Straight-line	3~10 years
Software	Straight-line	4~5 years
Others	Straight-line	4~30 years

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill in the Group's opening IFRS statement of financial position is stated at its carrying amount prior to the date of transition under the previous K-GAAP.

Goodwill acquired in business combinations after the transition date is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not depreciated and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates and joint ventures is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates and joint ventures.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible asset, such as goodwill and trade name, is not recognized as an asset but expensed as incurred.

3.11 Leases (as lessee)

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

3.12 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The

impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.13 Non-current assets held for sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.14 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.15 Insurance Contracts

KB Life Insurance Co., Ltd., one of the subsidiaries of the Group, issues insurance contracts.

Insurance contracts are defined as “a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder”. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of IAS 39, *Financial Instruments: Recognition and measurement* to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to IFRS 4, *Insurance Contracts*. The Group recognizes assets (liabilities) and gains (losses) relating to insurance contracts as other assets (liabilities) in the statements of financial position, and as other operating income (expenses) in the statements of comprehensive income, respectively.

The following table lists numbers of currently available and discontinued insurance products as of December 31, 2011:

<u>Type</u>	<u>Available</u>	<u>Discontinued</u>	<u>Total</u>
Individual annuity	1	8	9
General annuity	7	20	27
Other pure endowment	—	3	3
Pure protection insurance	12	23	35
Other protection insurance	—	28	28
Joint insurance	6	33	39
Group protection insurance	1	5	6
Group savings insurance	—	1	1
Total	<u>27</u>	<u>121</u>	<u>148</u>

3.15.1 Insurance liabilities

The Group recognizes a liability for future claims, refunds, policyholders' dividends and related expenses as follows:

Premium reserve

A premium reserve refers to an amount based on the net premium method for payment of future claims with respect to events covered by insurance policies which have not yet occurred as of the reporting date.

Reserve for outstanding claims

A reserve for outstanding claims refers to the amount not yet paid, out of an amount to be paid or expected to be paid with respect to the insured events which have arisen as of the end of each fiscal year.

Unearned premium reserve

Unearned premium refers to the portion of the premium that has been paid in advance for insurance that has not yet been provided. An unearned premium reserve refers to the amount maintained by the insurer to refund in the event of either party cancelling the contract.

Policyholders' dividends reserve

Policyholders' dividends reserve including an interest rate guarantee reserve, a mortality dividend reserve and an interest rate difference dividend reserve is recognized for the purpose of provisioning for policyholders' dividends in the future in accordance with statutes or insurance terms and conditions.

3.15.2 Liability adequacy test

The Group assesses at each reporting date whether its insurance liabilities are adequate, using current estimates of all future contractual cash flows and related cash flow such as claims handling cost, as well as cash flows resulting from embedded options and guarantees under its insurance contracts in accordance with IFRS 4. If the assessment shows that the carrying amount of its insurance liabilities is inadequate in light of the estimated future cash flows, the entire deficiency is recognized in profit or loss and reserved as insurance liabilities. Future cash flows from long-term insurance are discounted at a future rate of return on operating assets, whereas future cash flows from general insurance are not discounted to present value. For liability adequacy tests of premium and unearned premium reserves, the Group considers all cash flow factors such as future insurance premium,

deferred acquisition costs, operating expenses and operating premiums. In relation to the reserve for outstanding claims, the Group elects a model that best reflects the trend of paid claims among several statistical methods to perform the adequacy test.

3.15.3 Deferred acquisition costs

Acquisition cost is deferred in an amount actually spent for an insurance contract and equally amortized over the premium payment period or the period in which acquisition costs are charged for the relevant insurance contract. The amortization of acquisition costs shall be carried out over a period of seven years, if the premium payment period or the period are charged acquisition costs exceeds seven years; if there is any unamortized acquisition costs remaining as of the date of surrender or lapse, such remainder shall be amortized in the period in which the contract is surrendered or lapsed.

3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

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

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.17 Financial guarantee contracts

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

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with IAS 18, *Revenue*.

3.18 Equity instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3.18.1 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.18.2 Hybrid capital instruments

The Group classifies issued financial instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Hybrid capital instruments where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

3.18.3 Treasury shares

If entities of the Group reacquire the Parent Company's equity instruments, those instruments ('treasury shares') are deducted from equity. No gains or losses are recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

3.19 Revenue recognition

3.19.1 Interest income and expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.19.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral

and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.19.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.20 Employee compensation and benefits

3.20.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in profit or loss.

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of any cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost arises when the Group introduces a defined benefit plan that attributes to past service or changes the benefits payable for past service under an existing defined benefit plan. Such past service cost is

recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, past service cost is recognized immediately.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.20.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.20.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments for a share-based payment transaction at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determined that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.20.4 Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognizes termination benefits as a liability and an expense when, and only when, the Group is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. The Group is demonstrably committed to a termination when, and only when, the Group has a detailed formal plan for the termination and is without realistic possibility of withdrawal. Where termination benefits fall due more than 12 months after the end of the reporting period, they are discounted using the appropriate discount rate.

3.21 Income tax expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or an

event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.21.1 Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

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

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

3.21.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the financial statements based on the guidance in IAS 37. A liability related to an uncertain tax position is recognized as the best estimate of expenditure if the uncertain tax position is probable of resulting in additional payment to the tax authorities. Meanwhile assets related to uncertain tax positions, caused by a claim for rectification or an appeal for refund claimed from the tax authorities related to additional assessments, are treated as contingent assets under IAS 37. Therefore, tax expenses are recognized in the financial statements when the uncertain tax position is probable of resulting in additional payment to the tax authorities, while tax benefits are recognized only when the tax refund is virtually certain.

The Group classifies interest and penalties related to uncertain tax positions as a component of income tax expense.

3.22 Earnings per share

The Group calculates basic earnings per share amounts and diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and presents them in the statement of comprehensive income. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Group adjusts profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares including convertible bonds and share options.

3.23 Operating Segments

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Each segment is a strategic business unit that offers different products and services and is managed separately because each business has different risks and opportunities requiring different technology and marketing strategies.

Segment information includes the items which are directly attributable and reasonably allocated to the segment.

3.24 United States dollar amounts

The Group operates primarily in Korea and its official accounting records are maintained in Korean won. The U.S. dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean won amounts are expressed in U.S. dollars at the rate of ₩1,158.50 to U.S. \$1.00, the U.S. Federal Reserve Bank of New York buying exchange rate in effect at noon, December 31, 2011. Such convenience translation into US dollars should not be construed as representations that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

4. Financial risk management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

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

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or VaR (Value at Risk) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Department

The Risk Management Department is responsible for monitoring and managing the Group's economic capital limit and managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off- balance sheet and uses expected losses and economic capital as a management

indicator. The Group manages credit risk by allocating credit risk economic capital limit. In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to industry and borrowers.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy.

For Kookmin Bank which is the main subsidiary, its loan analysis department which is independent from the sales department is responsible for all of loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit line, measuring the credit risk economic capital, adjusting credit limit, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Due from financial institutions	₩ 6,743,951	₩ 4,592,052	₩ 6,556,027
Financial assets held for trading	4,285,650	3,536,699	5,176,524
Financial assets designated at fair value through profit or loss	529	139	574,687
Available-for-sale financial assets	18,869,560	19,125,724	19,734,531
Held-to-maturity financial assets	13,215,287	13,908,102	13,055,158
Loans	196,686,844	197,621,004	212,107,027
Derivatives	3,392,391	2,595,121	2,448,455
Other financial assets	6,281,664	6,186,227	6,409,905
Acceptances and guarantees contracts	14,718,560	12,476,592	11,542,684
Financial guarantee contracts	1,415,358	1,153,687	945,167
Commitments	85,385,888	87,738,358	91,743,942
Total	<u>₩350,995,682</u>	<u>₩348,933,705</u>	<u>₩370,294,107</u>

4.2.4 Credit risk of loans

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

The Group recognizes an impairment loss on loans carried at amortized cost when there is any objective indication of impairment. Under IFRS, an impairment loss is based on losses incurred at the end of the reporting period therefore the Group does not recognize expected losses as a result of future events. The Group measure inherent incurred losses on loans and presents them in the financial statements through the use of an allowance account which is offset against the related loans.

Loans are categorized as follows:

	As of January 1, 2010							
	Retail		Corporate		Credit card		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In millions of Korean won)							
Neither past due nor impaired	₩96,924,679	49.55	₩87,689,932	44.82	₩11,015,022	5.63	₩195,629,633	100.00
Past due but not impaired	744,733	64.17	150,304	12.95	265,574	22.88	1,160,611	100.00
Impaired	700,777	22.14	2,379,561	75.17	85,016	2.69	3,165,354	100.00
Sub-total	98,370,189	49.20	90,219,797	45.12	11,365,612	5.68	199,955,598	100.00
Allowances ⁽¹⁾	(415,340)	12.71	(2,516,459)	76.98	(336,955)	10.31	(3,268,754)	100.00
Carrying amount	₩97,954,849	49.80	₩87,703,338	44.59	₩11,028,657	5.61	₩196,686,844	100.00

	As of December 31, 2010							
	Retail		Corporate		Credit card		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In millions of Korean won)							
Neither past due nor impaired	₩96,773,875	49.43	₩86,917,292	44.40	₩12,089,127	6.17	₩195,780,294	100.00
Past due but not impaired	1,274,435	71.53	261,493	14.68	245,600	13.79	1,781,528	100.00
Impaired	1,014,110	26.58	2,722,930	71.37	78,318	2.05	3,815,358	100.00
Sub-total	99,062,420	49.19	89,901,715	44.64	12,413,045	6.17	201,377,180	100.00
Allowances ⁽¹⁾	(520,842)	13.87	(2,907,747)	77.41	(327,587)	8.72	(3,756,176)	100.00
Carrying amount	₩98,541,578	49.86	₩86,993,968	44.02	₩12,085,458	6.12	₩197,621,004	100.00

	As of December 31, 2011							
	Retail		Corporate		Credit card		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In millions of Korean won)							
Neither past due nor impaired	₩101,217,550	48.26	₩96,553,423	46.04	₩11,945,631	5.70	₩209,716,604	100.00
Past due but not impaired	1,646,070	69.33	359,554	15.14	368,791	15.53	2,374,415	100.00
Impaired	1,061,585	30.65	2,295,483	66.27	106,845	3.08	3,463,913	100.00
Sub-total	103,925,205	48.22	99,208,460	46.02	12,421,267	5.76	215,554,932	100.00
Allowances ⁽¹⁾	(635,476)	18.43	(2,462,047)	71.41	(350,382)	10.16	(3,447,905)	100.00
Carrying amount	₩103,289,729	48.70	₩96,746,413	45.61	₩12,070,885	5.69	₩212,107,027	100.00

⁽¹⁾ Allowance for non-impaired loan losses is included.

Credit quality of loans that are neither past due nor impaired are as follows:

	As of January 1, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Outstanding	₩71,827,375	₩27,674,401	₩ 3,055,303	₩102,557,079
Good	21,290,100	33,965,256	4,261,980	59,517,336
Below Normal	3,807,204	26,050,275	3,697,739	33,555,218
Total	₩96,924,679	₩87,689,932	₩11,015,022	₩195,629,633

	As of December 31, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Outstanding	₩73,679,761	₩27,798,531	₩ 4,045,467	₩105,523,759
Good	19,176,181	35,244,465	4,627,103	59,047,749
Below Normal	3,917,933	23,874,296	3,416,557	31,208,786
Total	₩96,773,875	₩86,917,292	₩12,089,127	₩195,780,294

	As of December 31, 2011			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Outstanding	₩ 83,790,049	₩35,746,858	₩ 5,403,273	₩124,940,180
Good	14,532,234	39,312,628	4,378,523	58,223,385
Below Normal	2,895,267	21,493,937	2,163,835	26,553,039
Total	₩101,217,550	₩96,553,423	₩11,945,631	₩209,716,604

Credit quality of loans is classified as follows, according to the internal credit rating:

	Range of PD (%)	Retail	Corporate
	(Probability of Default)		
Outstanding	0.0 ~ 1.0	1 ~ 5 grade	AAA ~ BBB+
Good	1.0 ~ 5.0	6 ~ 8 grade	BBB ~ BB
Below Normal	5.0 ~	9 ~ 15 grade	BB- ~ D

Loans that are past due but not impaired are as follows:

	As of January 1, 2010				
	1 ~ 29 days	30 ~ 59 days	60 ~ 89 days	over 90 days	Total
	(In millions of Korean won)				
Retail	₩614,003	₩ 81,673	₩ 49,057	₩ —	₩ 744,733
Corporate	90,609	46,830	12,865	—	150,304
Credit card	175,655	53,149	31,030	5,740	265,574
Total	₩880,267	₩181,652	₩ 92,952	₩ 5,740	₩1,160,611

	As of December 31, 2010				
	1 ~ 29 days	30 ~ 59 days	60 ~ 89 days	over 90 days	Total
	(In millions of Korean won)				
Retail	₩ 988,574	₩188,504	₩ 97,019	₩ 338	₩1,274,435
Corporate	171,467	58,641	31,385	—	261,493
Credit card	154,638	54,127	36,218	617	245,600
Total	₩1,314,679	₩301,272	₩164,622	₩ 955	₩1,781,528

	As of December 31, 2011				
	1 ~ 29 days	30 ~ 59 days	60 ~ 89 days	over 90 days	Total
	(In millions of Korean won)				
Retail	₩1,361,218	₩181,343	₩103,340	₩ 169	₩1,646,070
Corporate	196,591	138,817	24,146	—	359,554
Credit card	242,975	71,518	53,667	631	368,791
Total	₩1,800,784	₩391,678	₩181,153	₩ 800	₩2,374,415

Impaired loans are as follows:

	As of January 1, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans	₩ 700,777	₩ 2,379,561	₩ 85,016	₩ 3,165,354
Allowances	(187,656)	(1,124,846)	(54,945)	(1,367,447)
Carrying amount	<u>₩ 513,121</u>	<u>₩ 1,254,715</u>	<u>₩ 30,071</u>	<u>₩ 1,797,907</u>

	As of December 31, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans	₩1,014,110	₩ 2,722,930	₩ 78,318	₩ 3,815,358
Allowances	(256,049)	(1,361,484)	(50,725)	(1,668,258)
Carrying amount	<u>₩ 758,061</u>	<u>₩ 1,361,446</u>	<u>₩ 27,593</u>	<u>₩ 2,147,100</u>

	As of December 31, 2011			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans	₩1,061,585	₩ 2,295,483	₩106,845	₩ 3,463,913
Allowances	(397,623)	(1,251,577)	(68,513)	(1,717,713)
Carrying amount	<u>₩ 663,962</u>	<u>₩ 1,043,906</u>	<u>₩ 38,332</u>	<u>₩ 1,746,200</u>

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
	(In millions of Korean won)				
Guarantee	₩ 12,340	₩153,074	₩ 97,988	₩ 12,484,706	₩ 12,748,108
Deposits and savings	—	8,250	1,029	2,993,531	3,002,810
Property and equipment	24,853	2,470	336	702,028	729,687
Real estate	279,443	718,383	428,917	89,607,659	91,034,402
Total	<u>₩316,636</u>	<u>₩882,177</u>	<u>₩528,270</u>	<u>₩105,787,924</u>	<u>₩107,515,007</u>

	As of December 31, 2010				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
	(In millions of Korean won)				
Guarantee	₩ 46,019	₩140,955	₩159,609	₩ 13,667,393	₩ 14,013,976
Deposits and savings	—	76,951	78,217	2,648,529	2,803,697
Property and equipment	27,431	4,806	5,129	1,006,446	1,043,812
Real estate	225,720	598,989	708,914	98,593,556	100,127,179
Total	<u>₩299,170</u>	<u>₩821,701</u>	<u>₩951,869</u>	<u>₩115,915,924</u>	<u>₩117,988,664</u>

	As of December 31, 2011				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
	(In millions of Korean won)				
Guarantee	₩ 21,210	₩124,641	₩ 173,708	₩ 18,345,603	₩ 18,665,162
Deposits and savings	—	31,037	69,880	2,654,151	2,755,068
Property and equipment	12,648	4,717	1,671	1,067,929	1,086,965
Real estate	176,022	398,292	1,158,298	105,470,158	107,202,770
Total	<u>₩209,880</u>	<u>₩558,687</u>	<u>₩1,403,557</u>	<u>₩127,537,841</u>	<u>₩129,709,965</u>

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments excluding equity securities that are exposed to credit risk are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Securities that are neither past due nor impaired	₩36,360,478	₩36,557,475	₩38,531,825
Impaired securities	10,548	13,189	9,075
Total	<u>₩36,371,026</u>	<u>₩36,570,664</u>	<u>₩38,540,900</u>

The credit quality of securities (debt securities) that are neither past due nor impaired as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
	(In millions of Korean won)					
Financial assets held for trading	₩ 4,191,917	₩ 93,732	₩ —	₩ —	₩ 1	₩ 4,285,650
Available-for-sale financial assets	18,101,961	735,526	13,276	424	9,187	18,860,374
Held-to-maturity financial assets	13,214,454	—	—	—	—	13,214,454
Total	<u>₩35,508,332</u>	<u>₩829,258</u>	<u>₩13,276</u>	<u>₩ 424</u>	<u>₩9,188</u>	<u>₩36,360,478</u>

	As of December 31, 2010					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
	(In millions of Korean won)					
Financial assets held for trading	₩ 3,481,884	₩ 45,182	₩ 9,633	₩ —	₩ —	₩ 3,536,699
Financial assets designated at fair value through profit or loss	—	—	—	—	139	139
Available-for-sale financial assets	18,103,675	934,250	65,589	210	9,108	19,112,832
Held-to-maturity financial assets	13,907,805	—	—	—	—	13,907,805
Total	<u>₩35,493,364</u>	<u>₩979,432</u>	<u>₩75,222</u>	<u>₩ 210</u>	<u>₩9,247</u>	<u>₩36,557,475</u>

As of December 31, 2011						
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
(In millions of Korean won)						
Financial assets held for trading	₩ 5,079,469	₩ 88,144	₩ 8,911	₩ —	₩ —	₩ 5,176,524
Financial assets designated at fair value through profit or loss	238,085	336,602	—	—	—	574,687
Available-for-sale financial assets	18,458,778	1,224,835	41,911	90	—	19,725,614
Held-to-maturity financial assets	13,055,000	—	—	—	—	13,055,000
Total	₩36,831,332	₩1,649,581	₩50,822	₩ 90	₩ —	₩38,531,825

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KIS	KAP	NICE	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB-to BBB+	BBB-to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	Lower than BB-	Lower than BB-	Lower than BB-	Lower than B	Lower than B	Lower than B2

4.2.6 Credit risk concentration analysis

The details of the Group's loans by the country as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

As of January 1, 2010							
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
(In millions of Korean won)							
Korea	₩98,315,503	₩88,752,916	₩11,364,815	₩198,433,234	99.24	₩(3,241,199)	₩195,192,035
Europe	9	99,205	108	99,322	0.05	(962)	98,360
China	1,713	300,509	22	302,244	0.15	(1,749)	300,495
Japan	10,212	637,958	316	648,486	0.32	(23,114)	625,372
U.S	—	310,913	170	311,083	0.16	(464)	310,619
Others	42,752	118,296	181	161,229	0.08	(1,266)	159,963
Total	₩98,370,189	₩90,219,797	₩11,365,612	₩199,955,598	100.00	₩(3,268,754)	₩196,686,844

As of December 31, 2010							
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
(In millions of Korean won)							
Korea	₩98,996,738	₩88,282,185	₩12,412,143	₩199,691,066	99.16	₩(3,738,848)	₩195,952,218
Europe	9	46,297	135	46,441	0.02	(1,132)	45,309
China	728	247,776	54	248,558	0.12	(2,448)	246,110
Japan	12,299	868,930	283	881,512	0.44	(10,832)	870,680
U.S	—	368,748	241	368,989	0.18	(1,532)	367,457
Others	52,646	87,779	189	140,614	0.08	(1,384)	139,230
Total	₩99,062,420	₩89,901,715	₩12,413,045	₩201,377,180	100.00	₩(3,756,176)	₩197,621,004

As of December 31, 2011

	<u>Retail</u>	<u>Corporate</u>	<u>Credit card</u>	<u>Total</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
(In millions of Korean won)							
Korea	₩103,855,183	₩97,298,342	₩12,420,318	₩213,573,843	99.08	₩(3,428,520)	₩210,145,323
Europe	11	69,004	110	69,125	0.03	(555)	68,570
China	434	315,375	37	315,846	0.15	(1,961)	313,885
Japan	11,914	1,014,607	301	1,026,822	0.48	(14,976)	1,011,846
U.S	—	412,669	272	412,941	0.19	(432)	412,509
Others	57,663	98,463	229	156,355	0.07	(1,461)	154,894
Total	<u>₩103,925,205</u>	<u>₩99,208,460</u>	<u>₩12,421,267</u>	<u>₩215,554,932</u>	<u>100.00</u>	<u>₩(3,447,905)</u>	<u>₩212,107,027</u>

The details of the Group's corporate loans by industry as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	<u>Loans</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
(In millions of Korean won)				
Financial institutions	₩ 4,122,234	4.57	₩ (35,365)	₩ 4,086,869
Manufacturing	27,082,160	30.02	(634,651)	26,447,509
Service	35,591,939	39.44	(987,245)	34,604,694
Public sector	258,620	0.29	(2,847)	255,773
Others	23,164,844	25.68	(856,351)	22,308,493
Total	<u>₩90,219,797</u>	<u>100.00</u>	<u>₩(2,516,459)</u>	<u>₩87,703,338</u>

	As of December 31, 2010			
	<u>Loans</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
(In millions of Korean won)				
Financial institutions	₩ 4,374,231	4.87	₩ (122,011)	₩ 4,252,220
Manufacturing	28,216,439	31.39	(848,039)	27,368,400
Service	34,040,219	37.86	(799,782)	33,240,437
Public sector	337,670	0.38	(6,611)	331,059
Others	22,933,156	25.50	(1,131,304)	21,801,852
Total	<u>₩89,901,715</u>	<u>100.00</u>	<u>₩(2,907,747)</u>	<u>₩86,993,968</u>

	As of December 31, 2011			
	<u>Loans</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
(In millions of Korean won)				
Financial institutions	₩ 5,839,148	5.89	₩ (57,335)	₩ 5,781,813
Manufacturing	31,762,908	32.01	(852,707)	30,910,201
Service	36,305,778	36.60	(547,148)	35,758,630
Public sector	310,978	0.31	(5,190)	305,788
Others	24,989,648	25.19	(999,667)	23,989,981
Total	<u>₩99,208,460</u>	<u>100.00</u>	<u>₩(2,462,047)</u>	<u>₩96,746,413</u>

The details of the Group's retail and credit card loans by type as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Housing purpose	₩ 45,895,475	41.82	₩ (50,254)	₩ 45,845,221
General purpose	52,474,714	47.82	(365,086)	52,109,628
Credit card	11,365,612	10.36	(336,955)	11,028,657
Total	₩109,735,801	100.00	₩(752,295)	₩108,983,506
	As of December 31, 2010			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Housing purpose	₩ 43,323,149	38.86	₩ (64,281)	₩ 43,258,868
General purpose	55,739,271	50.00	(456,561)	55,282,710
Credit card	12,413,045	11.14	(327,587)	12,085,458
Total	₩111,475,465	100.00	₩(848,429)	₩110,627,036
	As of December 31, 2011			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Housing purpose	₩ 45,519,956	39.12	₩ (96,963)	₩ 45,422,993
General purpose	58,405,249	50.20	(538,513)	57,866,736
Credit card	12,421,267	10.68	(350,382)	12,070,885
Total	₩116,346,472	100.00	₩(985,858)	₩115,360,614

The details of the Group's securities (debt securities) by industry as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	
	Amount	%
	(In millions of Korean won)	
Financial assets held for trading		
Government and government funded institutions	₩ 1,409,894	32.90
Banking and Insurance	2,597,359	60.60
Others	278,397	6.50
Total financial assets held for trading	4,285,650	100.00
Financial assets designated at fair value through profit or loss		
Banking and Insurance	529	100.00
Total financial assets designated at fair value through profit or loss	529	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,939,823	47.38
Banking and Insurance	7,930,954	42.03
Others	1,998,783	10.59
Total available-for-sale financial assets	18,869,560	100.00
Held-to-maturity financial assets		
Government and government funded institutions	9,877,457	74.74
Banking and Insurance	2,964,768	22.43
Others	373,062	2.83
Total held-to-maturity financial assets	13,215,287	100.00
Total	₩36,371,026	

	<u>As of December 31, 2010</u>	
	<u>Amount</u>	<u>%</u>
(In millions of Korean won)		
Financial assets held for trading		
Government and government funded institutions	₩ 929,254	26.27
Banking and Insurance	2,278,691	64.43
Others	328,754	9.30
Total financial assets held for trading	<u>3,536,699</u>	<u>100.00</u>
Financial assets designated at fair value through profit or loss		
Banking and Insurance	139	100.00
Total financial assets designated at fair value through profit or loss	<u>139</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	9,433,184	49.32
Banking and Insurance	7,589,597	39.68
Others	2,102,943	11.00
Total available-for-sale financial assets	<u>19,125,724</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	11,775,616	84.67
Banking and Insurance	1,608,046	11.56
Others	524,440	3.77
Total held-to-maturity financial assets	<u>13,908,102</u>	<u>100.00</u>
Total	<u>₩36,570,664</u>	

	<u>As of December 31, 2011</u>	
	<u>Amount</u>	<u>%</u>
(In millions of Korean won)		
Financial assets held for trading		
Government and government funded institutions	₩ 1,785,624	34.49
Banking and Insurance	2,972,087	57.41
Others	418,813	8.10
Total financial assets held for trading	<u>5,176,524</u>	<u>100.00</u>
Financial assets designated at fair value through profit or loss		
Banking and Insurance	574,687	100.00
Total financial assets designated at fair value through profit or loss	<u>574,687</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	8,483,273	42.99
Banking and Insurance	8,189,563	41.50
Others	3,061,695	15.51
Total available-for-sale financial assets	<u>19,734,531</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	10,732,519	82.21
Banking and Insurance	1,463,937	11.21
Others	858,702	6.58
Total held-to-maturity financial assets	<u>13,055,158</u>	<u>100.00</u>
Total	<u>₩38,540,900</u>	

The details of the Group's securities (debt securities) by country, as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	
	Amount	%
Financial assets held for trading		
Korea	₩ 4,285,650	100.00
Total financial assets held for trading	4,285,650	100.00
Financial assets designated at fair value through profit or loss		
United States	529	100.00
Total financial assets designated at fair value through profit or loss	529	100.00
Available-for-sale financial assets		
Korea	18,645,402	98.81
United States	204,141	1.08
Others	20,017	0.11
Total available-for-sale financial assets	18,869,560	100.00
Held-to-maturity financial assets		
Korea	13,214,454	99.99
United States	833	0.01
Total held-to-maturity financial assets	13,215,287	100.00
Total	₩36,371,026	
As of December 31, 2010		
	Amount	%
Financial assets held for trading		
Korea	₩ 3,536,699	100.00
Total financial assets held for trading	3,536,699	100.00
Financial assets designated at fair value through profit or loss		
United States	139	100.00
Total financial assets designated at fair value through profit or loss	139	100.00
Available-for-sale financial assets		
Korea	18,894,529	98.79
United States	208,756	1.09
Others	22,439	0.12
Total available-for-sale financial assets	19,125,724	100.00
Held-to-maturity financial assets		
Korea	13,907,805	100.00
United States	297	0.00
Total held-to-maturity financial assets	13,908,102	100.00
Total	₩36,570,664	

	<u>As of December 31, 2011</u>	
	<u>Amount</u>	<u>%</u>
Financial assets held for trading		
Korea	₩ 5,176,524	100.00
Total financial assets held for trading	<u>5,176,524</u>	<u>100.00</u>
Financial assets designated at fair value through profit or loss		
Korea	574,687	100.00
Total financial assets designated at fair value through profit or loss	<u>574,687</u>	<u>100.00</u>
Available-for-sale financial assets		
Korea	19,552,797	99.08
United States	180,832	0.92
Others	902	0.00
Total available-for-sale financial assets	<u>19,734,531</u>	<u>100.00</u>
Held-to-maturity financial assets		
Korea	13,055,000	100.00
United States	158	0.00
Total held-to-maturity financial assets	<u>13,055,158</u>	<u>100.00</u>
Total	<u><u>₩38,540,900</u></u>	

The Group's largest concentrations of OTC derivatives business are in the financial and insurance companies with high credit rating.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and out flow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of all financial assets, liabilities and off-balance sheet items such as commitments and financial guarantee contracts. The Group discloses them by maturity groups: On demand, up to one month, between over one month and three months, between over three months and 12 months, between over one year and five years, and over five years.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amount in the financial statements which are based on the present value of expected cash flows in some cases. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same upon maturity.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM ('Assets-Liabilities Management') and related guidelines which are applied to the risk management policies and procedures that address all the possible risks that arise from the overall business of the Group.

For the purpose of liquidity management, the liquidity ratio and accumulated liquidity gap ratio on all transactions affecting the in and outflows of funds and transactions of off balance sheet are measured, managed and reported to the Risk Management Council and Risk Management Committee on a regular basis.

As the main subsidiary, Kookmin Bank regularly reports the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk to the Asset-Liability Management Committee ('ALCO') which establishes and monitors the liquidity risk management strategy.

4.3.3. Analysis on remaining contractual maturity of financial assets and liabilities

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

		As of January 1, 2010						
		On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
		(In millions of Korean won)						
Financial assets								
	Cash and due from financial institutions ⁽³⁾	₩ 2,546,135	₩ 242,203	₩ 133,496	₩ 20,576	₩ 21,072	₩ 26,609	₩ 2,990,091
	Financial assets held for trading ⁽¹⁾	4,591,962	—	—	—	—	—	4,591,962
	Financial assets designated at fair value through profit or loss	529	—	—	—	—	—	529
	Derivatives held for trading ⁽¹⁾	3,276,856	—	—	—	—	—	3,276,856
	Derivatives held for fair value hedging ⁽⁵⁾	—	6,473	11,270	49,044	161,221	308,786	536,794
	Loans	—	15,707,376	27,727,088	73,653,725	57,049,366	59,220,790	233,358,345
	Available-for-sale financial assets ⁽²⁾	2,563,446	1,449,530	1,951,579	4,463,298	10,878,429	4,385,169	25,691,451
	Held-to-maturity financial assets	—	71,544	272,627	3,217,797	8,848,430	3,183,318	15,593,716
	Other financial assets	118,175	3,823,242	29,652	1,569,283	11,275	16,061	5,567,688
	Total	₩13,097,103	₩21,300,368	₩30,125,712	₩82,973,723	₩76,969,793	₩67,140,733	₩291,607,432
Financial liabilities								
	Financial liabilities held for trading ⁽¹⁾	₩ 1,364,223	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 1,364,223
	Derivatives held for trading ⁽¹⁾	2,858,001	—	—	—	—	—	2,858,001
	Derivatives held for fair value hedging ⁽⁵⁾	—	(1,876)	27,455	21,989	183,428	171,522	402,518
	Deposits ⁽⁴⁾	56,652,648	20,025,512	24,562,210	65,538,782	8,513,583	1,255,647	176,548,382
	Debts	148,763	4,291,469	2,352,882	4,089,531	2,948,840	489,709	14,321,194
	Debentures	30,340	1,821,973	1,161,168	14,312,768	22,888,880	5,398,983	45,614,112
	Other financial liabilities	(493)	6,119,637	27,853	37,576	272,697	4,445	6,461,715
	Total	₩61,053,482	₩32,256,715	₩28,131,568	₩84,000,646	₩34,807,428	₩ 7,320,306	₩247,570,145
Off-balance sheet items								
	Commitments ⁽⁶⁾	₩84,589,688	₩ —	₩ —	₩ 199,000	₩ 597,200	₩ —	₩ 85,385,888
	Financial guarantee contracts ⁽⁷⁾	893,858	—	521,500	—	—	—	1,415,358
	Total	₩85,483,546	₩ —	₩ 521,500	₩ 199,000	₩ 597,200	₩ —	₩ 86,801,246

As of December 31, 2010

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	(In millions of Korean won)						
Financial assets							
Cash and due from financial institutions ⁽³⁾	₩ 2,998,097	₩ 240,656	₩ 82,606	₩ 73,760	₩ —	₩ 78,532	₩ 3,473,651
Financial assets held for trading ⁽¹⁾	3,967,762	—	—	—	—	—	3,967,762
Financial assets designated at fair value through profit or loss	45,551	—	—	—	—	—	45,551
Derivatives held for trading ⁽¹⁾	2,389,891	—	—	—	—	—	2,389,891
Derivatives held for fair value hedging ⁽⁵⁾	—	9,165	4,301	66,925	224,174	337,262	641,827
Loans	11,423	16,797,877	27,686,564	76,657,226	50,411,935	66,620,433	238,185,458
Available-for-sale financial assets ⁽²⁾	2,927,213	623,348	1,188,703	4,601,559	11,454,171	4,351,690	25,146,684
Held-to-maturity financial assets	—	316,676	619,535	1,416,788	10,592,067	3,667,992	16,613,058
Other financial assets	111,976	3,681,036	32,524	1,570,164	20,175	15,576	5,431,451
Total	<u>₩12,451,913</u>	<u>₩21,668,758</u>	<u>₩29,614,233</u>	<u>₩84,386,422</u>	<u>₩72,702,522</u>	<u>₩75,071,485</u>	<u>₩295,895,333</u>
Financial liabilities							
Financial liabilities held for trading ⁽¹⁾	₩ 1,294,859	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 1,294,859
Derivatives held for trading ⁽¹⁾	1,996,621	—	—	—	—	—	1,996,621
Derivatives held for fair value hedging ⁽⁵⁾	—	25,955	279	(35,506)	49,263	(107,610)	(67,619)
Deposits ⁽⁴⁾	60,939,002	17,017,659	25,225,497	73,482,450	8,175,752	858,262	185,698,622
Debts	176,300	2,667,302	2,500,817	4,220,247	2,489,003	69,265	12,122,934
Debentures	51,524	1,484,274	1,227,886	9,539,022	16,477,876	5,405,493	34,186,075
Other financial liabilities	—	4,868,301	41,005	35,365	245,210	119,416	5,309,297
Total	<u>₩64,458,306</u>	<u>₩26,063,491</u>	<u>₩28,995,484</u>	<u>₩87,241,578</u>	<u>₩27,437,104</u>	<u>₩ 6,344,826</u>	<u>₩240,540,789</u>
Off-balance sheet items							
Commitments ⁽⁶⁾	₩87,178,408	₩ —	₩ 112,000	₩ 267,000	₩ 180,950	₩ —	₩ 87,738,358
Financial guarantee contracts ⁽⁷⁾	757,637	—	396,050	—	—	—	1,153,687
Total	<u>₩87,936,045</u>	<u>₩ —</u>	<u>₩ 508,050</u>	<u>₩ 267,000</u>	<u>₩ 180,950</u>	<u>₩ —</u>	<u>₩ 88,892,045</u>

As of December 31, 2011

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
(In millions of Korean won)							
Financial assets							
Cash and due from financial institutions ⁽³⁾	₩ 4,453,019	₩ 303,624	₩ 76,508	₩ 89,831	₩ 4	₩ 119,097	₩ 5,042,083
Financial assets held for trading ⁽¹⁾	5,617,257	—	—	—	—	—	5,617,257
Financial assets designated at fair value through profit or loss	134,160	—	1,989	89,395	483,303	—	708,847
Derivatives held for trading ⁽¹⁾	2,220,314	—	—	—	—	—	2,220,314
Derivatives held for fair value hedging ⁽⁵⁾	—	9,502	(4,709)	28,399	148,990	346,779	528,961
Loans	97,595	22,337,365	27,042,768	76,893,033	56,899,525	79,060,029	262,330,315
Available-for-sale financial assets ⁽²⁾	2,240,727	1,408,252	2,604,981	4,785,474	10,153,262	4,012,911	25,205,607
Held-to-maturity financial assets	—	198,914	611,115	2,227,089	9,397,778	2,854,547	15,289,443
Other financial assets	16,079	3,933,496	2,253	1,569,281	14,548	11,487	5,547,144
Total	₩14,779,151	₩28,191,153	₩30,334,905	₩85,682,502	₩77,097,410	₩86,404,850	₩322,489,971
Financial liabilities							
Financial liabilities held for trading ⁽¹⁾	₩ 550,873	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 550,873
Financial liabilities designated at fair value through profit or loss	—	—	99,894	148,688	588,624	—	837,206
Derivatives held for trading ⁽¹⁾	1,905,343	—	—	—	—	—	1,905,343
Derivatives held for fair value hedging ⁽⁵⁾	—	(378)	28,613	(1,427)	129,600	6,744	163,152
Deposits ⁽⁴⁾	62,496,734	19,301,815	27,509,188	77,736,839	8,954,242	509,831	196,508,649
Debts	365,944	2,433,558	3,377,097	7,222,927	3,278,067	605,826	17,283,419
Debentures	24,260	4,098,529	1,516,938	6,220,672	15,047,649	4,737,050	31,645,098
Other financial liabilities	—	5,488,548	20,474	24,245	187,882	122,718	5,843,867
Total	₩65,343,154	₩31,322,072	₩32,552,204	₩91,351,944	₩28,186,064	₩ 5,982,169	₩254,737,607
Off-balance sheet items							
Commitments ⁽⁶⁾	₩91,196,792	₩ —	₩ 75,000	₩ 267,000	₩ 205,150	₩ —	₩ 91,743,942
Financial guarantee contracts ⁽⁷⁾	794,167	—	151,000	—	—	—	945,167
Total	₩91,990,959	₩ —	₩ 226,000	₩ 267,000	₩ 205,150	₩ —	₩ 92,689,109

(1) Financial instruments held for trading, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore they are included in the 'On demand' category.

(2) Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category because most of them are available for sale at anytime. However, in the case of equity investments restricted for sale, they are classified in the maturity section to which the end of restriction period belongs.

(3) The amounts of ₩6,113,735 million, ₩3,361,294 million and ₩4,177,347 million which are restricted amounts due from the financial institutions as of January 1, 2010, December 31, 2010 and 2011, and are excluded.

(4) Deposits that are contractually repayable on demand or on short notice are classified as 'On demand' category.

(5) Cash flows of derivative instruments held for fair value hedging are measured by net amount of cash inflows and outflows.

(6) Unused lines of credit within commitments are included in the 'On demand' category because it can be required to pay upon request.

(7) The financial guarantee contracts are included in the maturity section containing the earliest date when the contracts are excisable.

The contractual cash flows of derivatives held for cash flow hedging as of December 31, 2011, are as follows:

	As of December 31, 2011					Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
	(In millions of Korean won)					
To be received	₩1,139	₩ 2,864	₩ 11,690	₩371,807	₩ —	₩387,500
To be paid	1,446	3,380	14,160	354,042	—	373,028

Meanwhile, there were no derivatives designated as cash flow hedging instruments as of January 1, 2010, or December 31, 2010.

4.4 Market risk

4.4.1 Overview of market risk

Definition of market risk

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors that affect the fair value or future cash flows of financial instruments, such as securities, derivatives, amongst others. The most significant risks associated with trading positions are interest rate risks, and other risks are stock price risks and currency risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions. The Group measures and manages market risk separately for each subsidiary in the Group.

Market risk management group

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, and market risk management guidelines for trading positions, and interest rate risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

As the main subsidiary, Kookmin Bank establishes market risk management policy, sets position limits, loss limit and VAR limits of each business group and approves newly developed derivative instruments, by its Risk Management Council. The Risk Management Council has delegated the responsibility for market risk management of individual business department to the Market Risk Management Committee which is chaired by a CRO (Chief Risk Officer). The Market Risk Management Committee sets VaR limits, position limits, loss limits, scenario loss limits and sensitivity limits for each department of divisions, at the level of individual business department.

The ALCO of Kookmin Bank determines operational standards of interest and commission, revises ALM (Asset Liability Management) risk management guidelines, interest rate and commission guidelines and monitors establishment and enforcement of ALM risk management policies. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimated reflecting the annual work plan. The financial management department and risk management department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks such as interest rate gap, duration gap and sensitivity are reported to the ALCO on a monthly basis and to the Risk Management Council on a quarterly basis. The responsibility of ALM control is delegated to the Risk Management Department to ensure adequacy

on interest rate and liquidity risk management. The Risk Management Department monitors and reviews risk management procedures and tasks conducted by the Financial Management Department, and reports related information to management independently.

4.4.2 Trading Position

Definition of trading position

Trading positions subject to market risk management are defined under the Trading Policy and Guideline, and basic requirements are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks is able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and Guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.

The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

VaR (Value at Risk)

i. VaR (Value at Risk)

A key measure of market risk is the daily Value at Risk (VaR). The daily VaR is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. The Group calculates VaR using the equal-weighted average method based on historical changes in market rates, prices and volatilities over the previous 550 business days and measures VaR at a 99% single tail confidence level. This 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 measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market 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.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. Also, general and individual risks in some positions included in the consolidated financial statements in adoption of IFRS, are measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risks and some positions.

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the market risk model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

The stress testing is carried out to analyze the abnormal market situations relating to the trading and available-for-sale portfolio. It reflects interest rate, stock price, foreign exchange rate, implied volatility of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group mainly uses an historical scenario tool and also uses a hypothetical scenario tool for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99% confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a one-day holding period by subsidiary as of January 1, 2010, and as of and for the years ended December 31, 2010 and 2011, are as follows:

Kookmin Bank

	As of January 1, 2010		As of and for the Year Ended December 31, 2010			
	Beginning		Average	Minimum	Maximum	Ending
	(In millions of Korean won)					
Interest rate risk	₩	6,135	₩4,249	₩ 2,076	₩ 6,317	₩ 3,598
Stock price risk		2,760	1,591	103	4,246	125
Foreign exchange rate risk		5,835	5,276	441	13,391	5,200
Deduction of diversification effect		(7,555)				(3,348)
Total VaR	₩	7,175	₩6,411	₩ 3,230	₩12,480	₩ 5,575
			As of and for the Year Ended December 31, 2011			
			Average	Minimum	Maximum	Ending
	(In millions of Korean won)					
Interest rate risk			₩2,537	₩ 1,430	₩ 4,019	₩ 1,866
Stock price risk			725	86	2,569	1,161
Foreign exchange rate risk			6,464	4,187	12,610	4,882
Deduction of diversification effect						(3,141)
Total VaR			₩6,206	₩ 4,000	₩11,992	₩ 4,768

KB Investment & Securities Co., Ltd.

	As of January 1, 2010		As of and for the Year Ended December 31, 2010			
	Beginning		Average	Minimum	Maximum	Ending
	(In millions of Korean won)					
Interest rate risk	₩	1,048	₩ 980	₩ 307	₩ 2,152	₩491
Stock price risk		653	608	281	1,817	794
Foreign exchange rate risk		80	64	2	208	2
Deduction of diversification effect		(511)				(297)
Total VaR	₩	1,270	₩1,174	₩ 488	₩ 2,172	₩990

	<u>As of and for the Year Ended December 31, 2011</u>			
	<u>Average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Ending</u>
	<u>(In millions of Korean won)</u>			
Interest rate risk	₩ 410	₩ 131	₩ 1,046	₩ 413
Stock price risk	659	350	1,643	444
Foreign exchange rate risk	161	15	586	57
Deduction of diversification effect				(329)
Total VaR	₩ 819	₩ 381	₩ 1,885	₩ 585

KB Life Insurance Co., Ltd.

	<u>As of January 1, 2010</u>	<u>As of and for the Year Ended December 31, 2010</u>			
	<u>Beginning</u>	<u>Average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Ending</u>
	<u>(In millions of Korean won)</u>				
Interest rate risk	₩ 75	₩ 21	₩ 6	₩ 77	₩ 32
Deduction of diversification effect	(5)				—
Total VaR	₩ 70	₩ 21	₩ 6	₩ 72	₩ 32

	<u>As of and for the Year Ended December 31, 2011</u>			
	<u>Average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Ending</u>
	<u>(In millions of Korean won)</u>			
Interest rate risk	₩ 23	₩ 10	₩ 53	₩ 12
Deduction of diversification effect				—
Total VaR	₩ 23	₩ 10	₩ 53	₩ 12

KB Investment Co., Ltd.

	<u>As of January 1, 2010</u>	<u>As of and for the Year Ended December 31, 2010</u>			
	<u>Beginning</u>	<u>Average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Ending</u>
	<u>(In millions of Korean won)</u>				
Foreign exchange rate risk	₩ 65	₩ 49	₩ —	₩ 71	₩ 29
Deduction of diversification effect	—				—
Total VaR	₩ 65	₩ 49	₩ —	₩ 71	₩ 29

	<u>As of and for the Year Ended December 31, 2011</u>			
	<u>Average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Ending</u>
	<u>(In millions of Korean won)</u>			
Foreign exchange rate risk	₩ 31	₩ 26	₩ 52	₩ 28
Deduction of diversification effect				—
Total VaR	₩ 31	₩ 26	₩ 52	₩ 28

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

Kookmin Bank

	As of January 1,		As of December 31,	
	2010		2010	2011
	(In millions of Korean won)			
Interest rate risk	₩	1,789	₩26,928	₩23,602
Stock price risk		163	—	21,220
Foreign exchange rate risk		6,839	9,266	9,561
Commodity value risk		697	—	—
Total	₩	9,488	₩36,194	₩54,383

KB Investment & Securities Co., Ltd.

	As of January 1,		As of December 31,	
	2010		2010	2011
	(In millions of Korean won)			
Interest rate risk	₩	5,775	₩ 3,528	₩ 3,911
Stock price risk		4,533	9,353	10,212
Total	₩	10,308	₩12,881	₩14,123

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

iv. Commodity risk

The Group is exposed to other price risk (other than those arising from interest rate, stock price or currency risk) while holding commodity derivatives. Those underlying assets are metal and precious metal, and the Group makes back-to-back hedge contracts in order to mitigate changes in the price risks.

4.4.3 Non-trading position

Definition of non-trading position

The most critical market risk that arises in non-trading portfolios is interest rate risk. Interest rate risk occurs due to mismatches on maturities and interest rate change periods between interest sensitive assets and liabilities. The Group measures interest rate risk arising from assets and liabilities denominated in Korean won and foreign currencies including derivative financial instruments held for hedging. Most interest-bearing assets and interest-bearing liabilities are denominated in Korean won. Most foreign currency assets and liabilities are denominated in US Dollars and the remainder in Japanese Yen or Euro.

Observation method on market risk arising from non-trading position

The main objective of interest rate risk management is to generate stable net interest income and to protect asset values against interest rate fluctuations. The Group manages the risk through interest rate gap analysis on interest rate maturities between interest-bearing assets and interest-bearing liabilities and measuring interest rate VaR.

Disclosure of results from each observation method

i. Interest rate gap analysis

Interest rate gap analysis is based on interest rates repricing maturities of interest-bearing assets and interest-bearing liabilities. It measures expected changes in net interest income by calculating the difference in the amounts of interest-bearing assets and interest-bearing liabilities at each maturity. The Group conducts interest gap analysis on assets denominated in Korean won and foreign currencies on a monthly basis. However, where there is no maturity of a particular instrument, then a maturity date is set according to liquidity risk management guidelines.

The results of the interest rate gap analysis by subsidiary as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

Kookmin Bank

	As of January 1, 2010					Total
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	
	(In millions of Korean won)					
Interest-bearing assets in Korean won	₩145,771,663	₩34,801,525	₩ 13,966,699	₩ 13,185,559	₩ 8,646,144	₩216,371,590
Interest-bearing liabilities in Korean won	88,681,486	21,841,990	49,296,794	33,427,544	17,339,782	210,587,596
Gap	₩ 57,090,177	₩12,959,535	₩(35,330,095)	₩(20,241,985)	₩(8,693,638)	₩ 5,783,994
Accumulated gap	57,090,177	70,049,712	34,719,617	14,477,632	5,783,994	
Percentage (%)	26.39	32.37	16.05	6.69	2.67	
Interest-bearing assets in foreign currencies	₩ 9,992,036	₩ 1,834,697	₩ 429,739	₩ 546,220	₩ 295,567	₩ 13,098,259
Interest-bearing liabilities in foreign currencies	10,537,990	3,397,664	778,358	146,509	11,485	14,872,006
Gap	₩ (545,954)	₩(1,562,967)	₩ (348,619)	₩ 399,711	₩ 284,082	₩ (1,773,747)
Accumulated gap	(545,954)	(2,108,921)	(2,457,540)	(2,057,829)	(1,773,747)	
Percentage (%)	(4.17)	(16.10)	(18.76)	(15.71)	(13.54)	

As of December 31, 2010						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩126,798,255	₩47,423,485	₩ 16,872,833	₩ 16,985,016	₩10,142,869	₩218,222,458
Interest-bearing liabilities in Korean won	87,674,549	19,796,003	49,701,076	34,481,647	18,327,894	209,981,169
Gap	₩ 39,123,706	₩27,627,482	₩(32,828,243)	₩(17,496,631)	₩(8,185,025)	₩ 8,241,289
Accumulated gap	39,123,706	66,751,188	33,922,945	16,426,314	8,241,289	
Percentage (%)	17.93	30.59	15.55	7.53	3.78	
Interest-bearing assets in foreign currencies	₩ 9,667,247	₩ 1,846,761	₩ 696,691	₩ 662,499	₩ 395,968	₩ 13,269,166
Interest-bearing liabilities in foreign currencies	8,077,254	2,985,220	934,304	1,099,965	—	13,096,743
Gap	₩ 1,589,993	₩(1,138,459)	₩ (237,613)	₩ (437,466)	₩ 395,968	₩ 172,423
Accumulated gap	1,589,993	451,534	213,921	(223,545)	172,423	
Percentage (%)	11.98	3.40	1.61	(1.68)	1.30	

As of December 31, 2011						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩109,769,309	₩53,264,820	₩ 26,293,288	₩16,619,523	₩ 9,309,082	₩215,256,022
Interest-bearing liabilities in Korean won	91,469,293	30,487,095	54,100,542	20,867,820	13,169,891	210,094,641
Gap	₩ 18,300,016	₩22,777,725	₩(27,807,254)	₩(4,248,297)	₩(3,860,809)	₩ 5,161,381
Accumulated gap	18,300,016	41,077,741	13,270,487	9,022,190	5,161,381	
Percentage (%)	8.50	19.08	6.16	4.19	2.40	
Interest-bearing assets in foreign currencies	₩ 13,009,331	₩ 2,081,836	₩ 1,015,797	₩ 899,201	₩ 139,646	₩ 17,145,811
Interest-bearing liabilities in foreign currencies	11,246,216	3,871,630	2,151,126	205,522	46,132	17,520,626
Gap	₩ 1,763,115	₩(1,789,794)	₩ (1,135,329)	₩ 693,679	₩ 9 3,514	₩ (374,815)
Accumulated gap	1,763,115	(26,679)	(1,162,008)	(468,329)	(374,815)	
Percentage (%)	10.28	(0.16)	(6.78)	(2.73)	(2.19)	

KB Kookmin Card Co., Ltd.

As of December 31, 2011						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩3,057,388	₩ 683,327	₩ 884,063	₩8,288,959	₩ 7,125	₩12,920,862
Interest-bearing liabilities in Korean won	1,811,500	860,000	2,530,000	3,052,800	1,170,000	9,424,300
Gap	₩1,245,888	₩ (176,673)	₩(1,645,937)	₩5,236,159	₩(1,162,875)	₩ 3,496,562
Accumulated gap	1,245,888	1,069,215	(576,722)	4,659,437	3,496,562	
Percentage (%)	9.64	8.28	(4.46)	36.06	27.06	

As of January 1, 2010

	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
	(In millions of Korean won)					
Interest-bearing assets in Korean won	₩304,088	₩ 20,000	₩ 33,016	₩ 5,200	₩ 987	₩ 363,291
Interest-bearing liabilities in Korean won . . .	276,598	—	20,000	99,276	100,000	495,874
Gap	₩ 27,490	₩ 20,000	₩ 13,016	₩(94,076)	₩ (99,013)	₩(132,583)
Accumulated gap	27,490	47,490	60,506	(33,570)	(132,583)	
Percentage (%)	7.57	13.07	16.65	(9.24)	(36.49)	
Interest-bearing assets in foreign currencies	₩ 245	₩ —	₩ —	₩ —	₩ —	₩ 245
Interest-bearing liabilities in foreign currencies	—	—	—	—	—	—
Gap	₩ 245	₩ —	₩ —	₩ —	₩ —	₩ 245
Accumulated gap	245	245	245	245	245	
Percentage (%)	100.00	100.00	100.00	100.00	100.00	

As of December 31, 2010

	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
	(In millions of Korean won)					
Interest-bearing assets in Korean won	₩477,433	₩ 5,000	₩ 20,000	₩ —	₩ 1,234	₩503,667
Interest-bearing liabilities in Korean won . . .	400,069	—	—	99,276	100,000	599,345
Gap	₩ 77,364	₩ 5,000	₩ 20,000	₩(99,276)	₩ (98,766)	₩ (95,678)
Accumulated gap	77,364	82,364	102,364	3,088	(95,678)	
Percentage (%)	15.36	16.35	20.32	0.61	(19.00)	

As of December 31, 2011

	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
	(In millions of Korean won)					
Interest-bearing assets in Korean won	₩599,877	₩ 103,522	₩ 108,031	₩ 10,002	₩ 2,517	₩823,949
Interest-bearing liabilities in Korean won . . .	482,001	70,000	—	49,470	—	601,471
Gap	₩117,876	₩ 33,522	₩ 108,031	₩(39,468)	₩ 2,517	₩222,478
Accumulated gap	117,876	151,398	259,429	219,961	222,478	
Percentage (%)	14.31	18.37	31.49	26.70	27.00	
Interest-bearing assets in foreign currencies	₩ 2,068	₩ —	₩ —	₩ —	₩ —	₩ 2,068
Interest-bearing liabilities in foreign currencies	—	—	—	—	—	—
Gap	₩ 2,068	₩ —	₩ —	₩ —	₩ —	₩ 2,068
Accumulated gap	2,068	2,068	2,068	2,068	2,068	
Percentage (%)	100.00	100.00	100.00	100.00	100.00	

As of January 1, 2010						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩72,732	₩ 155,226	₩ 152,597	₩ 398,147	₩1,234,801	₩2,013,503
Interest-bearing liabilities in Korean won	39,080	1,418,690	29,671	41,572	518,502	2,047,515
Gap	₩33,652	₩(1,263,464)	₩ 122,926	₩ 356,575	₩ 716,299	₩ (34,012)
Accumulated gap	33,652	(1,229,812)	(1,106,886)	(750,311)	(34,012)	
Percentage (%)	1.67	(61.08)	(54.97)	(37.26)	(1.69)	
As of December 31, 2010						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩ 10,320	₩ 195,855	₩ 267,798	₩ 615,120	₩1,702,990	₩2,792,083
Interest-bearing liabilities in Korean won	39,000	542,800	1,663,500	39,700	571,500	2,856,500
Gap	₩(28,680)	₩(346,945)	₩(1,395,702)	₩ 575,420	₩1,131,490	₩ (64,417)
Accumulated gap	(28,680)	(375,625)	(1,771,327)	(1,195,907)	(64,417)	
Percentage (%)	(1.03)	(13.45)	(63.44)	(42.83)	(2.31)	
As of December 31, 2011						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩228,597	₩137,620	₩ 386,143	₩ 820,641	₩1,917,627	₩3,490,628
Interest-bearing liabilities in Korean won	60,048	45,817	2,853,620	29,087	541,782	3,530,354
Gap	₩168,549	₩ 91,803	₩(2,467,477)	₩ 791,554	₩1,375,845	₩ (39,726)
Accumulated gap	168,549	260,352	(2,207,125)	(1,415,571)	(39,726)	
Percentage (%)	4.83	7.46	(63.23)	(40.55)	(1.14)	

KB Futures Co., Ltd.

As of January 1, 2010						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩171,903	₩ 9,016	₩ —	₩ 4,964	₩ 2,878	₩188,761
Interest-bearing liabilities in Korean won	161,634	—	—	—	—	161,634
Gap	₩ 10,269	₩ 9,016	₩ —	₩ 4,964	₩ 2,878	₩ 27,127
Accumulated gap	10,269	19,285	19,285	24,249	27,127	
Percentage (%)	5.44	10.22	10.22	12.85	14.37	
Interest-bearing assets in foreign currencies	₩ 19,574	₩ —	₩ —	₩ —	₩ —	₩ 19,574
Interest-bearing liabilities in foreign currencies	18,599	—	—	—	—	18,599
Gap	₩ 975	₩ —	₩ —	₩ —	₩ —	₩ 975
Accumulated gap	975	975	975	975	975	
Percentage (%)	4.98	4.98	4.98	4.98	4.98	
As of December 31, 2010						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
(In millions of Korean won)						
Interest-bearing assets in Korean won	₩136,511	₩ 9,944	₩ —	₩ —	₩ 2,738	₩149,193
Interest-bearing liabilities in Korean won	118,013	—	—	—	—	118,013
Gap	₩ 18,498	₩ 9,944	₩ —	₩ —	₩ 2,738	₩ 31,180
Accumulated gap	18,498	28,442	28,442	28,442	31,180	
Percentage (%)	12.40	19.06	19.06	19.06	20.90	
Interest-bearing assets in foreign currencies	₩ 14,025	₩ —	₩ —	₩ —	₩ —	₩ 14,025
Interest-bearing liabilities in foreign currencies	12,904	—	—	—	—	12,904
Gap	₩ 1,121	₩ —	₩ —	₩ —	₩ —	₩ 1,121
Accumulated gap	1,121	1,121	1,121	1,121	1,121	
Percentage (%)	7.99	7.99	7.99	7.99	7.99	

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
(In millions of Korean won)			
Kookmin Bank	₩ 2,126,748	₩1,867,038	₩847,865
KB Kookmin Card Co., Ltd	—	—	124,681
KB Investment & Securities Co., Ltd	3,461	2,555	8,213
KB Life Insurance Co., Ltd	68,779	107,350	127,328
KB Futures Co., Ltd	570	425	—

4.4.4 Financial instruments in foreign currencies

Financial instruments in foreign currencies as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010						Total
	USD	JPY	EUR	GBP	CNY	Others	
	(In millions of Korean won)						
Financial assets							
Cash and due from financial institutions	₩ 681,449	₩ 83,973	₩ 69,585	₩ 7,794	₩11,697	₩ 52,932	₩ 907,430
Financial assets designated at fair value through profit or loss	529	—	—	—	—	—	529
Derivatives held for trading	67,428	294	664	—	—	—	68,386
Derivatives held for hedging	976	—	—	—	—	—	976
Loans	7,356,674	2,230,296	605,111	23,553	—	204,174	10,419,808
Available-for-sale financial assets	1,405,998	106,489	99,310	1,470	—	1,630	1,614,897
Held-to-maturity financial assets	6,672	—	—	—	—	—	6,672
Other financial assets	1,440,547	296,447	151,593	3,004	—	47,082	1,938,673
Total financial assets	₩ 10,960,273	₩2,717,499	₩ 926,263	₩ 35,821	₩11,697	₩ 305,818	₩ 14,957,371
Financial liabilities							
Derivatives held for trading	₩ 358,766	₩ 259	₩ 3,492	₩ —	₩ —	₩ 43,085	₩ 405,602
Deposits	2,897,094	320,938	199,345	15,062	—	192,763	3,625,202
Debts	3,233,778	1,288,261	2,053,269	73,832	—	344,988	6,994,128
Debentures	3,098,025	901,185	599,116	—	—	109,347	4,707,673
Other financial liabilities	1,210,332	129,000	183,954	56,395	—	35,252	1,614,933
Total financial liabilities	₩ 10,797,995	₩2,639,643	₩3,039,176	₩145,289	₩ —	₩ 725,435	₩ 17,347,538
Off-balance sheet items	₩129,077,140	₩2,973,309	₩8,968,186	₩503,821	₩ 9,314	₩2,259,499	₩143,791,269

As of December 31, 2010							
	USD	JPY	EUR	GBP	CNY	Others	Total
(In millions of Korean won)							
Financial assets							
Cash and due from financial institutions	₩ 615,441	₩ 112,474	₩ 63,029	₩ 9,210	₩13,647	₩ 59,996	₩ 873,797
Financial assets designated at fair value through profit or loss	139	—	—	—	—	—	139
Derivatives held for trading	74,064	—	631	—	—	—	74,695
Loans	7,509,125	2,549,529	630,402	17,595	—	270,953	10,977,604
Available-for-sale financial assets	1,310,058	48,343	19,273	1,359	—	1,694	1,380,727
Held-to-maturity financial assets	297	—	—	—	—	—	297
Other financial assets	688,988	49,642	182,249	53,083	—	47,258	1,021,220
Total financial assets ..	₩ 10,198,112	₩2,759,988	₩ 895,584	₩ 81,247	₩13,647	₩ 379,901	₩ 14,328,479
Financial liabilities							
Derivatives held for trading	₩ 255,631	₩ —	₩ 2,522	₩ —	₩ —	₩ —	₩ 258,153
Deposits	1,924,129	569,837	172,955	12,236	2	168,916	2,848,075
Debts	4,027,395	1,331,826	1,066,213	67,447	—	147,947	6,640,828
Debentures	2,583,656	766,464	423,379	—	—	114,765	3,888,264
Other financial liabilities ...	879,186	113,992	38,907	2,203	28	130,954	1,165,270
Total financial liabilities	₩ 9,669,997	₩2,782,119	₩1,703,976	₩ 81,886	₩ 30	₩ 562,582	₩ 14,800,590
Off-balance sheet items ...	₩120,271,523	₩2,290,339	₩6,870,863	₩441,330	₩13,770	₩1,231,799	₩131,119,624

As of December 31, 2011							
	USD	JPY	EUR	GBP	CNY	Others	Total
(In millions of Korean won)							
Financial assets							
Cash and due from financial institutions	₩ 600,886	₩ 112,395	₩ 73,159	₩ 12,571	₩25,088	₩ 72,379	₩ 896,478
Derivatives held for trading	89,851	—	1,027	—	—	—	90,878
Derivatives held for hedging	37,669	—	—	—	—	—	37,669
Loans	11,129,173	2,589,314	753,075	46,149	215	220,212	14,738,138
Available-for-sale financial assets	1,101,434	59,900	18,546	782	—	1,595	1,182,257
Held-to-maturity financial assets	158	—	—	—	—	—	158
Other financial assets	1,178,711	227,508	147,019	3,732	—	105,358	1,662,328
Total financial assets ..	₩ 14,137,882	₩2,989,117	₩ 992,826	₩ 63,234	₩25,303	₩ 399,544	₩ 18,607,906
Financial liabilities							
Derivatives held for trading	₩ 221,135	₩ —	₩ 1,695	₩ —	₩ —	₩ —	₩ 222,830
Derivatives held for hedging	34	—	—	—	—	—	34
Deposits	3,318,285	598,055	164,087	11,959	231	256,987	4,349,604
Debts	6,554,932	1,987,560	839,649	4,261	217	236,713	9,623,332
Debentures	2,728,700	816,320	335,169	—	—	68,843	3,949,032
Other financial liabilities ...	866,202	132,752	22,765	50,604	18	27,360	1,099,701
Total financial liabilities	₩ 13,689,288	₩3,534,687	₩1,363,365	₩ 66,824	₩ 466	₩ 589,903	₩ 19,244,533
Off-balance sheet items ...	₩125,595,251	₩2,715,680	₩3,082,112	₩ 41,120	₩10,772	₩ 225,063	₩131,669,998

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, Kookmin Bank established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6. Capital Adequacy

The Group assesses its adequacy of capital by using the Internal Rating Based Approach (the 'IRBA'). The assessment is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under the target credit rate set by the Group). The Group monitors the soundness of finance and provides a risk adjusted basis for performance review.

Economic Capital is the necessary capital to prevent the inability of payment due to unexpected loss in the future. The Group measures, allocates and monitors economic capital by risk type and subsidiaries.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and subsidiaries. Each subsidiary efficiently operates its capital within a range of allocated economic capital. The Risk Management Department of the Group monitors the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion.

The Group is a financial holding company under the Financial Holding Companies Act. It must maintain a consolidated BIS ratio above 8% based on Basel I in accordance with the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies.

The details of the Group's consolidated BIS ratio as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010 ⁽¹⁾	2010 ⁽¹⁾	2011
	(In millions of Korean won)		
Equity Capital	₩24,360,262	₩ 23,948,343	₩ 25,239,906
Tier I Capital	17,500,648	17,714,236	19,544,271
Tier II Capital	6,859,614	6,234,107	5,695,635
Risk-weighted assets	182,664,075	183,077,983	192,812,547
Credit risk	178,955,500	178,727,946	187,851,397
Market risk	3,708,575	4,350,037	4,961,150
Capital adequacy ratio (%)	13.34	13.08	13.09
Tier I Capital (%)	9.58	9.68	10.14
Tier II Capital (%)	3.76	3.40	2.95

⁽¹⁾ Based on previous K-GAAP in accordance with Korean regulations.

5. Segment Information

5.1 Overall Segment Information and Business Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. As of December 31, 2011, the Group is organized into six major business segments: Corporate Banking, Retail Banking, Other Banking Service, Credit Card, Investment & Securities and Life Insurance. These business segments are determined based on the nature of the products and services provided, the type or class of customers, and the Group's management organization.

Banking business	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, deposits, other credit facilities and other foreign currency activities.
	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.
	Other Banking Services	The Other Banking segment provides other services relating to banking business besides Corporate Banking services and Retail Banking services.
Credit Card business		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.
Investment & Securities business		The Investment & Securities segment provides investment banking and brokerage services.
Life Insurance business		The Life Insurance segment provides life insurance and wealth management products.

Financial information by business segment for the year ended December 31, 2010, follows:

	Banking business						Intra-group Adjustments	Total	
	Corporate Banking	Retail Banking	Other Banking Services	Credit Card	Investment & Securities	Life Insurance			Others ⁽¹⁾
	(In millions of Korean won)								
Segment profits (losses) before income tax	₩ (888,123)	₩ 582,190	₩(654,957)	₩1,010,203	₩ 52,558	₩ 23,510	₩ 92,519	₩ (68,532)	₩ 149,368
The following are included in the segment profits (losses):									
Operating revenues from external customers	₩ 2,362,913	₩2,994,303	₩ 637,061	₩1,361,255	₩138,042	₩116,110	₩ 16,299	₩ —	₩ 7,625,983
Inter-segment operating revenues	(8,539)	—	(36,645)	—	(2,459)	(56,219)	126,250	(22,388)	—
Sub-total	₩ 2,354,374	₩2,994,303	₩ 600,416	₩1,361,255	₩135,583	₩ 59,891	₩142,549	₩ (22,388)	₩ 7,625,983
Net interest income	2,551,563	2,353,548	277,809	840,583	4,376	127,535	19,393	(1,003)	6,173,804
Net fee and commission income	279,589	646,906	73,931	588,731	52,168	80	91,822	(28,513)	1,704,714
Gains (losses) from financial assets at fair value through profit or loss	(3,678)	(104,017)	845,477	—	72,442	2,987	1,597	—	814,808
Net other operating income	(473,100)	97,866	(596,801)	(68,059)	6,597	(70,711)	29,737	7,128	(1,067,343)
Provision for credit losses	(2,393,092)	(263,592)	(66,357)	(129,267)	2,183	(308)	(20,960)	(24)	(2,871,417)
Depreciation and amortization	(51,812)	(146,939)	(122,177)	(12,380)	(6,453)	(3,950)	(4,703)	722	(347,692)
Share of profit of associates and joint ventures	—	—	(208,503)	—	—	—	(260)	(1,831)	(210,594)

Financial information by business segment for the year ended December 31, 2011, follows:

	Banking business			Credit Card	Investment & Securities	Life Insurance	Others ⁽¹⁾	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services						
	(In millions of Korean won)								
Segment profits (losses) before income tax	₩ 622,926	₩1,184,815	₩ 793,620	₩ 571,250	₩ 37,372	₩ 23,855	₩(42,075)	₩ 69,043	₩ 3,260,806
The following are included in the segment profits (losses):									
Operating revenues from external customers	₩ 2,287,249	₩3,266,610	₩1,633,577	₩1,402,352	₩162,835	₩114,616	₩(24,119)	₩ —	₩ 8,843,120
Inter-segment operating revenues	(42,943)	(54,409)	220,063	(277,024)	(2,323)	(47,350)	187,079	16,907	—
Sub-total	₩ 2,244,306	₩3,212,201	₩1,853,640	₩1,125,328	₩160,512	₩ 67,266	₩162,960	₩ 16,907	₩ 8,843,120
Net interest income	2,559,260	2,779,467	674,268	901,486	13,256	161,717	17,221	(2,163)	7,104,512
Net fee and commission income	242,581	634,916	503,186	241,571	83,130	45	96,070	(6,749)	1,794,750
Gains (losses) from financial assets at fair value through profit or loss	(2,205)	(1,832)	993,680	—	50,209	68	(4,050)	(3)	1,035,867
Net other operating income	(555,330)	(200,350)	(317,494)	(17,729)	13,917	(94,564)	53,719	25,822	(1,092,009)
Provision for credit losses	(1,006,656)	(302,261)	17,384	(206,566)	(5,919)	(1,241)	(7,766)	47	(1,512,978)
Depreciation and amortization	(38,017)	(112,277)	(145,340)	(35,873)	(6,055)	(4,306)	(3,478)	2,853	(342,493)
Share of profit of associates and joint ventures	—	—	1,352	—	242	—	2,436	933	4,963

⁽¹⁾ Others are composed of other minor operating segments such as collective investment business, real estate trust business, and debt collection business.

5.2 Product & Services and Geographical Segments

5.2.1 Product and Services information

Operating revenues by product and services for the years ended December 31, 2010 and 2011, are as follows:

	For the year ended December 31,	
	2010	2011
	(In millions of Korean won)	
Corporate banking service	₩ 2,362,913	₩ 2,287,249
Retail banking service	2,994,303	3,266,610
Credit card service	1,361,255	1,402,352
Investment & Securities service	138,042	162,835
Life insurance service	116,110	114,616
Other service	653,360	1,609,458
Total	₩ 7,625,983	₩ 8,843,120

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2010 and 2011, and major non-current assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	As of and for the Year Ended December 31,			
		2010		2011	
	Major non-current assets	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
	(In millions of Korean won)				
Domestic	₩ 3,659,473	₩7,540,673	₩3,660,755	₩8,751,005	₩3,734,661
United States	937	15,648	358	12,849	145
New Zealand	382	9,072	130	7,591	60
China	2,417	26,525	1,453	25,528	861
Japan	2,214	22,600	2,000	31,499	2,103
Argentina	—	(2)	—	7	—
Vietnam	—	—	—	65	481
Cambodia	2,078	2,082	952	2,929	557
England	109	9,385	83	11,647	42
Intra-group adjustment	60,855	—	42,370	—	(32,897)
Total	₩ 3,728,465	₩7,625,983	₩3,708,101	₩8,843,120	₩3,706,013

6. Financial Assets and Financial Liabilities

6.1 Carrying amounts of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost.

Measurement policies for each class of financial assets and financial liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of January 1, 2010, are as follows:

	Financial assets at fair value through profit or loss						Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	
	(In millions of Korean won)						
Financial assets							
Cash and due from financial institutions	₩ —	₩ —	₩ 9,102,630	₩ —	₩ —	₩ —	₩ 9,102,630
Financial assets at fair value through profit or loss	4,591,962	529	—	—	—	—	4,592,491
Derivatives	3,276,856	—	—	—	—	115,535	3,392,391
Loans	—	—	196,686,844	—	—	—	196,686,844
Financial investments	—	—	—	21,821,423	13,215,287	—	35,036,710
Other financial assets	—	—	6,281,664	—	—	—	6,281,664
Total	₩7,868,818	₩ 529	₩212,071,138	₩ 21,821,423	₩13,215,287	₩ 115,535	₩255,092,730

	Financial liabilities at fair value through profit or loss			Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables			
	(In millions of Korean won)					
Financial liabilities						
Financial liabilities at fair value through profit or loss	₩ —	₩ 1,364,223	₩ —	₩ —	₩ —	₩ 1,364,223
Derivatives	—	2,858,001	—	—	280,393	3,138,394
Deposits	—	—	169,065,043	—	—	169,065,043
Debts	—	—	13,834,104	—	—	13,834,104
Debentures	—	—	38,661,962	—	—	38,661,962
Other financial liabilities	—	—	10,403,875	—	—	10,403,875
Total	₩ —	₩ 4,222,224	₩ 231,964,984	₩ —	₩ 280,393	₩236,467,601

The carrying amounts of financial assets and liabilities by category as of December 31, 2010, are as follows:

	Financial assets at fair value through profit or loss						Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	
	(In millions of Korean won)						
Financial assets							
Cash and due from financial institutions	₩ —	₩ —	₩ 6,829,828	₩ —	₩ —	₩ —	₩ 6,829,828
Financial assets at fair value through profit or loss	3,967,762	45,551	—	—	—	—	4,013,313
Derivatives	2,389,891	—	—	—	—	205,230	2,595,121
Loans	—	—	197,621,004	—	—	—	197,621,004
Financial investments	—	—	—	22,281,548	13,908,102	—	36,189,650
Other financial assets	—	—	6,186,227	—	—	—	6,186,227
Total	₩6,357,653	₩ 45,551	₩210,637,059	₩22,281,548	₩13,908,102	₩205,230	₩253,435,143

	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total		
	Held for trading						
(In millions of Korean won)							
Financial liabilities							
Financial liabilities at fair value through profit or loss							
loss	₩	1,294,859	₩	—	₩	1,279,869	
Derivatives		1,996,621		239,738		2,236,359	
Deposits		—		179,862,071		179,862,071	
Debts		—		11,744,389		11,744,389	
Debentures		—		29,107,316		29,107,316	
Other financial liabilities		—		9,274,727		9,274,727	
Total	₩	3,291,480	₩	229,988,503	₩	239,738	₩233,519,721

The carrying amounts of financial assets and liabilities by category as of December 31, 2011, are as follows:

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total		
	Held for trading	Designated at fair value through profit or loss							
(In millions of Korean won)									
Financial assets									
Cash and due from financial institutions	₩	—	₩	9,178,125	₩	—	₩	9,178,125	
Financial assets at fair value through profit or loss									
loss		5,617,257		708,847				6,326,104	
Derivatives		2,220,314		—		228,141		2,448,455	
Loans		—		212,107,027		—		212,107,027	
Financial investments		—		—	22,377,024	13,055,158		35,432,182	
Other financial assets		—		6,409,905		—		6,409,905	
Total	₩	7,837,571	₩	708,847	₩227,695,057	₩22,377,024	₩13,055,158	₩228,141	₩271,901,798

	<u>Financial liabilities at fair value through profit or loss</u>				<u>Total</u>
	<u>Held for trading</u>	<u>Designated at fair value through profit or loss</u>	<u>Financial liability at amortized cost</u>	<u>Derivatives held for hedging</u>	
	(In millions of Korean won)				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩ 550,873	₩ 837,206	₩ —	₩ —	₩ 1,388,079
Derivatives	1,905,343	—	—	154,230	2,059,573
Deposits	—	—	190,337,590	—	190,337,590
Debts	—	—	16,823,838	—	16,823,838
Debentures	—	—	27,069,879	—	27,069,879
Other financial liabilities	—	—	9,962,105	—	9,962,105
Total	<u>₩ 2,456,216</u>	<u>₩ 837,206</u>	<u>₩244,193,412</u>	<u>₩ 154,230</u>	<u>₩247,641,064</u>

6.2 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

- Investment securities** The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the valuation techniques including Discounted Cash Flow Model, Imputed Market Value Model, Free Cash Flow to Equity Model, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
- Loans** Discounted Cash Flow Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flow, which are contractual cash flows adjusted by prepayment rate, at appropriate discount rate. For those loans with residual maturities of less than three months as of the reporting date and the ones with interest rate reset period of less than three months, carrying amount is regarded as fair value.
- Derivatives** For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.

Deposits	Carrying amount of demand deposits is regarded as fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flow, which are contractual cash flows adjusted by prepayment rate, at appropriate discount rate. For those deposits with residual maturities of less than three months as of the reporting date and ones with interest rate reset period of less than three months, carrying amount is regarded as fair value.
Debts	Fair value is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate. However, for those debts with residual maturities of less than three months as of the reporting date and ones with interest rate reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

Fair values of financial assets and liabilities measured at amortized cost as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,		As of December 31,			
	2010		2010		2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions of Korean won)					
Financial assets						
Cash and due from financial institution . . .	₩ 9,102,630	₩ 9,101,744	₩ 6,829,828	₩ 6,819,272	₩ 9,178,125	₩ 9,185,763
Loans	196,686,844	197,499,223	197,621,004	198,627,998	212,107,027	212,858,247
Held-to-maturity financial assets	13,215,287	13,596,207	13,908,102	14,339,936	13,055,158	13,562,430
Other financial assets	6,281,664	6,281,664	6,186,227	6,186,227	6,409,905	6,409,905
Total financial assets	<u>₩225,286,425</u>	<u>₩226,478,838</u>	<u>₩224,545,161</u>	<u>₩225,973,433</u>	<u>₩240,750,215</u>	<u>₩242,016,345</u>
Financial liabilities						
Deposits	₩169,065,043	₩169,183,026	₩179,862,071	₩180,177,676	₩190,337,590	₩190,560,759
Debts	13,834,104	13,826,825	11,744,389	11,776,282	16,823,838	16,826,152
Debentures	38,661,962	40,171,652	29,107,316	30,764,365	27,069,879	28,636,722
Other financial liabilities	10,403,875	10,404,170	9,274,727	9,274,762	9,962,105	9,983,449
Total financial liabilities	<u>₩231,964,984</u>	<u>₩233,585,673</u>	<u>₩229,988,503</u>	<u>₩231,993,085</u>	<u>₩244,193,412</u>	<u>₩246,007,082</u>

Fair value hierarchy

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

Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1. This level includes listed equity securities, exchange traded derivatives, government bonds and financial instruments indexed to the price of gold.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2. This level includes the majority of debt securities and general over-the-counter derivatives such as swaps, futures and options.

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3. This level includes unlisted equity securities, complex structured bonds, and complex over-the-counter derivatives.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
	(In millions of Korean won)			
Financial assets				
Financial assets held for trading	₩ 2,300,519	₩ 2,281,658	₩ 9,785	₩ 4,591,962
Financial assets designated at fair value through profit or loss	—	—	529	529
Derivatives held for trading	886	3,203,866	72,104	3,276,856
Derivatives held for hedging	—	115,250	285	115,535
Available-for-sale financial assets ⁽¹⁾	9,984,409	10,409,801	1,427,213	21,821,423
Total financial assets	<u>₩12,285,814</u>	<u>₩16,010,575</u>	<u>₩1,509,916</u>	<u>₩29,806,305</u>
Financial liabilities				
Financial liabilities held for trading	₩ 1,364,223	₩ —	₩ —	₩ 1,364,223
Derivatives held for trading	398	2,580,933	276,670	2,858,001
Derivatives held for hedging	—	211,933	68,460	280,393
Total financial liabilities	<u>₩ 1,364,621</u>	<u>₩ 2,792,866</u>	<u>₩ 345,130</u>	<u>₩ 4,502,617</u>

As of December 31, 2010				
Fair value hierarchy				
	Level 1	Level 2	Level 3	Total
(In millions of Korean won)				
Financial assets				
Financial assets held for trading	₩ 1,780,652	₩ 2,177,303	₩ 9,807	₩ 3,967,762
Financial assets designated at fair value				
through profit or loss	—	45,412	139	45,551
Derivatives held for trading	809	2,369,659	19,423	2,389,891
Derivatives held for hedging	—	198,924	6,306	205,230
Available-for-sale financial assets ⁽¹⁾	9,642,649	11,115,157	1,523,742	22,281,548
Total financial assets	<u>₩11,424,110</u>	<u>₩15,906,455</u>	<u>₩1,559,417</u>	<u>₩28,889,982</u>
Financial liabilities				
Financial liabilities held for trading	₩ 1,294,859	₩ —	₩ —	₩ 1,294,859
Derivatives held for trading	7,576	1,898,169	90,876	1,996,621
Derivatives held for hedging	—	204,022	35,716	239,738
Total financial liabilities	<u>₩ 1,302,435</u>	<u>₩ 2,102,191</u>	<u>₩ 126,592</u>	<u>₩ 3,531,218</u>
As of December 31, 2011				
Fair value hierarchy				
	Level 1	Level 2	Level 3	Total
(In millions of Korean won)				
Financial assets				
Financial assets held for trading	₩ 3,123,787	₩ 2,482,644	₩ 10,826	₩ 5,617,257
Financial assets designated at fair value				
through profit or loss	—	134,160	574,687	708,847
Derivatives held for trading	158,649	2,020,623	41,042	2,220,314
Derivatives held for hedging	—	215,656	12,485	228,141
Available-for-sale financial assets ⁽¹⁾	10,254,897	10,790,661	1,331,466	22,377,024
Total financial assets	<u>₩13,537,333</u>	<u>₩15,643,744</u>	<u>₩1,970,506</u>	<u>₩31,151,583</u>
Financial liabilities				
Financial liabilities held for trading	₩ 550,873	₩ —	₩ —	₩ 550,873
Financial liabilities designated at fair value				
through profit or loss	—	—	837,206	837,206
Derivatives held for trading	158,261	1,695,235	51,847	1,905,343
Derivatives held for hedging	—	132,135	22,095	154,230
Total financial liabilities	<u>₩ 709,134</u>	<u>₩ 1,827,370</u>	<u>₩ 911,148</u>	<u>₩ 3,447,652</u>

⁽¹⁾ The amounts of equity securities carried at cost in “level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 194,007 million, ₩ 178,894 million and ₩ 186,564 million as of January 1, 2010 and December 31, 2010 and 2011, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, probabilities and range of estimated cash flows of the unlisted equity securities which are issued by project financing companies cannot be reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to sell these instruments in a short period of time.

6.3 Level 3 of the fair value hierarchy disclosure

6.3.1 Changes in Level 3 of the fair value hierarchy

Changes in level 3 of the fair value hierarchy for the year ended December 31, 2010, are as follows:

	Financial assets at fair value through profit or loss		Financial investments	Net derivatives	
	Financial assets held for trading	Designated at fair value through profit or loss	Available-for-sale financial assets	Derivatives held for trading	Derivatives held for hedging
	(In millions of Korean won)				
Beginning balance	₩ 9,785	₩ 529	₩ 1,427,213	₩ (204,566)	₩ (68,175)
Total gains or losses					
—Profit or loss	22	(390)	5,336	(29,781)	41,899
—Other comprehensive income	—	—	99,626	—	—
Purchases	—	—	180,737	2,040	—
Sales	—	—	(154,478)	(317)	—
Issues	—	—	—	(141,248)	—
Settlements	—	—	—	302,419	(3,134)
Transfers into level 3	—	—	—	—	—
Transfers out of level 3	—	—	(34,692)	—	—
Ending balance	₩ 9,807	₩ 139	₩ 1,523,742	₩ (71,453)	₩ (29,410)

Changes in level 3 of the fair value hierarchy for the year ended December 31, 2011, are as follows:

	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss	Net derivatives	
	Financial assets held for trading	Designated at fair value through profit or loss	Available-for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging
	(In millions of Korean won)					
Beginning balance	₩ 9,807	₩ 139	₩ 1,523,742	₩ —	₩ (71,453)	₩ (29,410)
Total gains or losses						
—Profit or loss	1,019	(51,229)	373,980	57,963	52,463	32,420
—Other comprehensive income	—	—	(140,112)	—	5,749	—
Purchases	—	636,126	136,582	—	14,733	—
Sales	—	(10,349)	(554,022)	—	(46)	—
Issues	—	—	—	(919,411)	(36,214)	—
Settlements	—	—	—	24,242	23,963	(12,620)
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	(8,704)	—	—	—
Ending balance	₩ 10,826	₩ 574,687	₩ 1,331,466	₩ (837,206)	₩ (10,805)	₩ (9,610)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statement of comprehensive income for the years ended December 31, 2010 and 2011, are as follows:

	For the year Ended December 31, 2010	
	Net income from financial investments at fair value through profit or loss	Other operating income
	(In millions of Korean won)	
Total gains or losses included in profit or loss for the period	₩ (30,135)	₩ 47,221
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(5,066)	(3,464)

	For the year Ended December 31, 2011	
	Net income from financial investments at fair value through profit or loss	Other operating income
	(In millions of Korean won)	
Total gains or losses included in profit or loss for the period	₩ 60,227	₩ 406,389
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	18,295	(30,100)

6.3.2 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is amortized by using the straight line method over the life of the financial instruments. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference, are as follows:

	For the year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Balance at the beginning of the period (A)	₩ —	₩ 2,168
New transactions (B)	6,634	5,878
Amounts recognized in profit or loss during the period (C= a+b+c)	(4,466)	(3,964)
a. Amortization	(962)	(1,314)
b. Transaction matured	3	—
c. Settlement	(3,507)	(2,650)
Balance at the end of period (A+B+C)	₩ 2,168	₩ 4,082

7. Due from financial institutions

The details of due from financial institutions as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

		Financial Institutions	Interest rate(%)	As of January 1,		As of December 31,	
				2010	2010	2011	
(In millions of Korean won)							
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~3.35	₩ 5,597,119	₩2,825,109	₩3,757,108	
	Due from banking institutions	The Korea Exchange Bank and others	0.01~7.15	136,728	296,732	371,225	
	Due from others	The Korea Exchange and others	0.00~3.37	367,815	888,733	1,888,260	
				<u>6,101,662</u>	<u>4,010,574</u>	<u>6,016,593</u>	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	0.00~0.17	233,700	269,498	321,689	
	Time deposits in foreign currencies	Agricultural Bank of China TIANJIN and others	0.17~6.05	383,518	286,242	187,294	
	Due from others	Sumitomo Mitsui Banking Corporation and others	0.00~0.10	25,071	25,738	30,451	
				<u>642,289</u>	<u>581,478</u>	<u>539,434</u>	
				<u>₩ 6,743,951</u>	<u>₩4,592,052</u>	<u>₩6,556,027</u>	

Due from financial institutions, classified by type of financial institution as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	In Korean won	In foreign currencies	Total
(In millions of Korean won)			
Bank of Korea	₩ 5,597,119	₩ 137,558	₩5,734,677
Other banking institutions	136,728	490,643	627,371
Other financial institutions	367,815	14,088	381,903
Total	<u>₩ 6,101,662</u>	<u>₩ 642,289</u>	<u>₩6,743,951</u>

	As of December 31, 2010		
	In Korean won	In foreign currencies	Total
	(In millions of Korean won)		
Bank of Korea	₩ 2,825,109	₩ 147,439	₩2,972,548
Other banking institutions	296,732	421,576	718,308
Other financial institutions	888,733	12,463	901,196
Total	₩ 4,010,574	₩ 581,478	₩4,592,052

	As of December 31, 2011		
	In Korean won	In foreign currencies	Total
	(In millions of Korean won)		
Bank of Korea	₩ 3,757,108	₩ 185,050	₩3,942,158
Other banking institutions	371,225	337,784	709,009
Other financial institutions	1,888,260	16,600	1,904,860
Total	₩ 6,016,593	₩ 539,434	₩6,556,027

Restricted due from financial institutions as of January 1, 2010 and December 31, 2010, and 2011, are as follows:

	Financial Institutions	As of January 1, As of December 31,			Reason for restriction
		2010	2010	2011	
		(In millions of Korean won)			
Due from financial institutions in Korean won	Due from Bank of Korea	₩ 5,597,119	₩2,825,109	₩3,757,108	Bank of Korea Act Pledged as collateral for the overdraft facility and others Market entry deposit and others
	Due from banking institutions	161	4,188	88,827	
	Due from others	336,064	334,002	69,437	
		5,933,344	3,163,299	3,915,372	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	140,127	151,403	189,859	Bank of Korea Act and others China's New Foreign Bank Regulations and others
	Time deposits in foreign currencies	19,266	28,814	48,810	
	Due from others	20,890	16,537	17,172	Derivatives margin account and others
		180,283	196,754	255,841	
	₩ 6,113,627	₩3,360,053	₩4,171,213		

8. Assets pledged as collaterals

The details of assets pledged as collaterals as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

Assets pledged	Pledgee	As of January 1, 2010		Reason of pledge
		Carrying amount	Collateralized amount	
(In millions of Korean won)				
Financial assets held for trading	Korea Securities Depository and others	₩ 117,883	₩ 112,195	Bonds sold under repurchase agreements
	Korea Securities Depository and others	1,179,515	1,133,917	Securities lending transactions
	Samsung Futures Inc. and others	41,940	38,145	Derivatives transitions
	Sub-total	1,339,338	1,284,257	
Available-for-sale financial assets	Korea Securities Depository and others	325,747	318,531	Bonds sold under repurchase agreements
	Korea Securities Depository and others	5,123	5,000	Securities lending transactions
	Bank of Korea	18,197	20,000	Borrowing from Bank of Korea
	Samsung Futures Inc. and others	255,044	234,328	Derivatives transitions
	Others	631,668	623,123	Other
Sub-total	1,235,779	1,200,982		
Held-to-maturity financial assets	Korea Securities Depository and others	3,885,049	3,904,000	Bonds sold under repurchase agreements
	Korea Securities Depository and others	126,621	135,000	Securities lending transactions
	Bank of Korea	1,367,734	1,400,000	Borrowings from Bank of Korea
	Bank of Korea	575,164	586,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	575,900	577,070	Derivatives transitions
	Others	350,474	350,000	Other
Sub-total	6,880,942	6,952,870		
Credit card receivables	Others	2,383,407	2,383,407	Covered bond
Mortgage loans ⁽¹⁾	Others	1,790,596	1,790,596	Covered bond
Total		₩13,630,062	₩13,612,112	

		As of December 31, 2010		
Assets pledged	Pledgee	Carrying amount	Collateralized amount	Reason of pledge
(In millions of Korean won)				
Due from financial institutions	Others	₩ 1,800	₩ 1,800	Securities lending transactions
	Sub-total	1,800	1,800	
Financial assets held for trading	Korea Securities Depository and others	72,693	69,669	Bonds sold under repurchase agreements
	Korea Securities Depository and others	1,199,627	1,144,320	Securities lending transactions
	Samsung Futures Inc. and others	24,583	21,771	Derivatives transitions
	Sub-total	1,296,903	1,235,760	
Available-for-sale financial assets	Korea Securities Depository and others	228,609	220,000	Bonds sold under repurchase agreements
	Korea Securities Depository and others	5,425	5,000	Securities lending transactions
	Bank of Korea	19,392	20,000	Borrowings from Bank of Korea
	Bank of Korea	706	700	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	21,316	20,869	Derivatives transitions
	Others	619,975	600,000	Other
	Sub-total	895,423	866,569	
Held-to-maturity financial assets	Korea Securities Depository and others	2,802,875	2,814,000	Bonds sold under repurchase agreements
	Korea Securities Depository and others	134,384	140,000	Securities lending transactions
	Bank of Korea	1,080,959	1,100,000	Borrowings from Bank of Korea
	Bank of Korea	597,303	604,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	590,579	596,729	Derivatives transitions
	Others	350,417	350,000	Other
	Sub-total	5,556,517	5,605,529	
Mortgage loans ⁽¹⁾	Others	1,565,649	1,565,649	Covered bond
Total		<u>₩9,316,292</u>	<u>₩9,275,307</u>	

		As of December 31, 2011		
Assets pledged	Pledgee	Carrying amount	Collateralized amount	Reason of pledge
(In millions of Korean won)				
Financial assets held for trading	Korea Securities Depository and others	₩ 183,280	₩ 178,171	Bonds sold under repurchase agreements
	Korea Securities Depository and others	647,363	602,299	Securities lending transactions
	Samsung Futures Inc. and others	105,457	95,956	Derivatives transitions
	Others	8,803	8,395	Other
	Sub-total	<u>944,903</u>	<u>884,821</u>	
Available-for-sale financial assets	Korea Securities Depository and others	29,393	29,986	Bonds sold under repurchase agreements
	Samsung Futures Inc. and others	5,976	5,766	Derivatives transitions
	Sub-total	<u>35,369</u>	<u>35,752</u>	
Held-to-maturity financial assets	Korea Securities Depository and others	1,678,218	1,678,000	Bonds sold under repurchase agreements
	Bank of Korea	1,063,228	1,070,000	Borrowings from Bank of Korea
	Bank of Korea	938,200	934,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	661,666	666,807	Derivatives transitions
	Others	1,224,998	1,200,300	Other
	Sub-total	<u>5,566,310</u>	<u>5,549,907</u>	
Mortgage loans ⁽¹⁾	Others	1,282,791	1,282,791	Covered Bond
Total		<u>₩7,829,373</u>	<u>₩ 7,753,271</u>	

(1) Carrying amounts of mortgage loans are the amounts before deducting the related allowance for loan losses.

The fair value of collateral available to sell or repledge as of January 1, 2010, and December 31, 2010 and 2011, is as follows:

		As of January 1, 2010	
		Fair value of collateral	Fair value of collateral sold or repledged
(In millions of Korean won)			
Securities		₩ 1,590,188	₩ —
Total		<u>₩ 1,590,188</u>	<u>₩ —</u>
		As of December 31, 2010	
		Fair value of collateral	Fair value of collateral sold or repledged
(In millions of Korean won)			
Securities		₩ 1,969,883	₩ —
Total		<u>₩ 1,969,883</u>	<u>₩ —</u>

	As of December 31, 2011	
	Fair value of collateral	Fair value of collateral sold or repledged
	(In millions of Korean won)	
Securities	₩ 1,881,523	₩ —
Total	₩ 1,881,523	₩ —

Loaned securities as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,		As of December 31,		Borrower		
	2010		2010			2011	
	(In millions of Korean won)						
Government and public bonds	₩ 239,362	₩880,448	₩170,279	Korea Securities Finance Corp., Korea Securities Depository and others			
Stocks	30,300	23,645	26,766	Korea Securities Depository and others			
Total	₩ 269,662	₩904,093	₩197,045				

Securities borrowed as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,		As of December 31,		Borrower		
	2010		2010			2011	
	(In millions of Korean won)						
Government and public bonds	₩ 543,076	₩656,243	₩18,422	Korea Securities Finance Corp., Korea Securities Depository			
Stocks	8,101	33,622	52,075	Korea Securities Depository and others			
Total	₩ 551,177	₩689,865	₩70,497				

9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won;
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks,
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values and in cash flows due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of January 1, 2010, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Futures ⁽¹⁾	₩ 3,770,071	₩ —	₩ —
Swaps	87,443,588	501,649	725,419
Options	7,053,481	23,222	21,390
Sub-total	<u>98,267,140</u>	<u>524,871</u>	<u>746,809</u>
Currency			
Forwards	35,780,010	1,422,589	464,595
Futures ⁽¹⁾	1,674,176	39	24
Swaps	18,755,961	1,040,675	1,227,231
Options	3,264,266	187,884	88,832
Sub-total	<u>59,474,413</u>	<u>2,651,187</u>	<u>1,780,682</u>
Stock and index			
Futures ⁽¹⁾	75,044	—	—
Swaps	171,400	11,330	45,438
Options	2,871,493	79,320	277,294
Sub-total	<u>3,117,937</u>	<u>90,650</u>	<u>322,732</u>
Credit			
Swaps	200,000	2,128	—
Sub-total	<u>200,000</u>	<u>2,128</u>	<u>—</u>
Product			
Forwards	41,727	2,412	2,388
Sub-total	<u>41,727</u>	<u>2,412</u>	<u>2,388</u>
Other			
	60,000	5,608	5,390
Total	<u>₩161,161,217</u>	<u>₩3,276,856</u>	<u>₩2,858,001</u>

The details of derivative financial instruments for trading as of December 31, 2010, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Futures ⁽¹⁾	₩ 1,067,923	₩ —	₩ —
Swaps	94,605,711	472,076	666,254
Options	10,401,894	48,480	47,202
Sub-total	<u>106,075,528</u>	<u>520,556</u>	<u>713,456</u>
Currency			
Forwards	36,849,872	874,400	308,487
Futures ⁽¹⁾	609,989	—	—
Swaps	16,870,518	932,319	813,419
Options	1,017,904	14,139	14,332
Sub-total	<u>55,348,283</u>	<u>1,820,858</u>	<u>1,136,238</u>
Stock and index			
Futures ⁽¹⁾	168,621	—	—
Swaps	7,638	2,114	—
Options	2,099,162	40,663	143,359
Sub-total	<u>2,275,421</u>	<u>42,777</u>	<u>143,359</u>
Credit			
Swaps	200,000	1,958	—
Sub-total	<u>200,000</u>	<u>1,958</u>	<u>—</u>
Other	60,000	3,742	3,568
Total	<u>₩163,959,232</u>	<u>₩2,389,891</u>	<u>₩1,996,621</u>

The details of derivative financial instruments for trading as of December 31, 2011, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Futures ⁽¹⁾	₩ 1,924,542	₩ —	₩ —
Swaps	110,920,785	519,217	653,983
Options	11,997,483	69,952	69,979
Sub-total	<u>124,842,810</u>	<u>589,169</u>	<u>723,962</u>
Currency			
Forwards	31,316,223	916,479	405,570
Futures ⁽¹⁾	212,052	—	125
Swaps	16,341,586	509,085	551,918
Options	348,643	3,151	1,401
Sub-total	<u>48,218,504</u>	<u>1,428,715</u>	<u>959,014</u>
Stock and index			
Futures ⁽¹⁾	85,419	—	—
Swaps	97,942	1,416	6,385
Options	1,049,752	198,295	213,668
Sub-total	<u>1,233,113</u>	<u>199,711</u>	<u>220,053</u>
Product			
Forwards	3,351	279	—
Sub-total	<u>3,351</u>	<u>279</u>	<u>—</u>
Other	60,000	2,440	2,314
Total	<u>₩174,357,778</u>	<u>₩2,220,314</u>	<u>₩1,905,343</u>

⁽¹⁾ A gain or loss from daily marking to market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of January 1, 2010, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Swaps	₩ 4,988,590	₩115,535	₩ 78,740
Currency			
Swaps	1,167,600	—	167,130
Other	190,000	—	34,523
Total	<u>₩ 6,346,190</u>	<u>₩115,535</u>	<u>₩280,393</u>

The details of derivatives designated as fair value hedging instruments as of December 31, 2010, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Swaps	₩ 4,440,700	₩205,230	₩ 21,205
Currency			
Swaps	1,138,900	—	193,376
Other	190,000	—	25,157
Total	<u>₩ 5,769,600</u>	<u>₩205,230</u>	<u>₩239,738</u>

The details of derivatives designated as fair value hedging instruments as of December 31, 2011, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Swaps	₩ 4,343,294	₩206,560	₩ 12,564
Currency			
Swaps	1,153,300	—	127,780
Other	190,000	—	12,800
Total	<u>₩ 5,686,594</u>	<u>₩206,560</u>	<u>₩153,144</u>

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Gains (losses) on hedging instruments	₩ 102,691	₩ 108,507
Gains (losses) on the hedged item attributable to the hedged risk	(87,292)	(84,914)
Total	<u>₩ 15,399</u>	<u>₩ 23,593</u>

Cash flow hedge

The details of derivatives designated as cash flow hedging instruments as of December 31, 2011, are as follows:

	<u>Notional amount</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions of Korean won)		
Interest rate			
Swaps	₩ 350,000	₩ —	₩ 1,086
Currency			
Swaps	345,990	21,581	—
Total	<u>₩ 695,990</u>	<u>₩21,581</u>	<u>₩ 1,086</u>

Meanwhile, there were no derivatives designated as cash flow hedging instruments as of January 1, 2010, or December 31, 2010.

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the year ended December 31, 2011, are as follows:

	For the year Ended December 31, 2011
	(In millions of Korean won)
Gains(losses) on hedging instruments	₩21,631
Gains(losses) on the hedged item attributable to the hedged risk	21,631
Ineffectiveness recognized in profit or loss	—

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the year ended December 31, 2011, are as follows:

	For the year Ended December 31, 2011
	(In millions of Korean won)
Amount recognized in other comprehensive income	₩ 21,631
Amount reclassified from equity to profit or loss	(23,193)
Tax effect	241
Total	₩ (1,321)

10. Loans

Loans as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u> <u>2010</u>	<u>As of December 31,</u> <u>2010</u> <u>2011</u>	
	(In millions of Korean won)		
Loans	₩199,709,250	₩201,065,468	₩215,155,061
Deferred loan origination fees and costs	246,348	311,712	399,871
Less: Allowances for loan losses	(3,268,754)	(3,756,176)	(3,447,905)
Carrying amount	<u>₩196,686,844</u>	<u>₩197,621,004</u>	<u>₩212,107,027</u>

Loans to banks as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u> <u>2010</u>	<u>As of December 31,</u> <u>2010</u> <u>2011</u>	
	(In millions of Korean won)		
Loans	₩ 2,158,108	₩2,819,202	₩3,987,658
Less: Allowances for loan losses	(1,665)	(1,158)	(334)
Carrying amount	<u>₩ 2,156,443</u>	<u>₩2,818,044</u>	<u>₩3,987,324</u>

Loans to customers other than banks as of January 1, 2010, and December 31, 2010 and 2011, consist of:

	As of January 1, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans in Korean won	₩98,315,503	₩74,534,415	₩ —	₩172,849,918
Loans in foreign currencies	54,686	4,534,360	—	4,589,046
Domestic import usance bills	—	2,354,936	—	2,354,936
Off-shore funding loans	—	1,134,125	—	1,134,125
Call loans	—	119,627	—	119,627
Bills bought in Korean won	—	19,179	—	19,179
Bills bought in foreign currencies	—	2,059,861	—	2,059,861
Guarantee payments under payment guarantee	—	59,090	—	59,090
Credit card receivables in won	—	—	11,364,023	11,364,023
Credit card receivables in foreign currencies	—	—	830	830
Bonds purchased under repurchase agreements	—	3,246,837	—	3,246,837
Privately placed bonds	—	18	—	18
Sub-total	98,370,189	88,062,448	11,364,853	197,797,490
Allowances	(415,340)	(2,514,803)	(336,946)	(3,267,089)
Total	₩97,954,849	₩85,547,645	₩11,027,907	₩194,530,401
Proportion (%)	49.73	44.52	5.75	100.00

	As of December 31, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans in Korean won	₩98,996,739	₩74,248,496	₩ —	₩173,245,235
Loans in foreign currencies	65,681	4,314,827	—	4,380,508
Domestic import usance bills	—	2,611,208	—	2,611,208
Off-shore funding loans	—	962,305	—	962,305
Call loans	—	143,213	—	143,213
Bills bought in Korean won	—	21,731	—	21,731
Bills bought in foreign currencies	—	2,226,960	—	2,226,960
Guarantee payments under payment guarantee	—	191,050	—	191,050
Credit card receivables in won	—	—	12,409,606	12,409,606
Credit card receivables in foreign currencies	—	—	924	924
Bonds purchased under repurchase agreements	—	230,000	—	230,000
Privately placed bonds	—	2,135,238	—	2,135,238
Sub-total	99,062,420	87,085,028	12,410,530	198,557,978
Allowances	(520,843)	(2,906,610)	(327,565)	(3,755,018)
Total	₩98,541,577	₩84,178,418	₩12,082,965	₩194,802,960
Proportion (%)	49.89	43.86	6.25	100.00

	As of December 31, 2011			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans in Korean won	₩103,855,183	₩80,355,474	₩ —	₩184,210,657
Loans in foreign currencies	70,022	4,071,464	—	4,141,486
Domestic import usance bills	—	4,277,672	—	4,277,672
Off-shore funding loans	—	893,289	—	893,289
Call loans	—	1,092,895	—	1,092,895
Bills bought in Korean won	—	104,487	—	104,487
Bills bought in foreign currencies	—	2,723,066	—	2,723,066
Guarantee payments under payment guarantee	—	56,511	—	56,511
Credit card receivables in won	—	—	12,420,308	12,420,308
Credit card receivables in foreign currencies	—	—	959	959
Bonds purchased under repurchase agreements	—	829,500	—	829,500
Privately placed bonds	—	816,444	—	816,444
Sub-total	103,925,205	95,220,802	12,421,267	211,567,274
Allowances	(635,476)	(2,461,713)	(350,382)	(3,447,571)
Total	₩103,289,729	₩92,759,089	₩12,070,885	₩208,119,703
Proportion (%)	49.12	45.01	5.87	100.00

The changes in deferred loan origination fees and costs for the years ended December 31, 2010 and 2011, are as follows:

	For the year Ended December 31, 2010				
	Beginning	Increase	Decrease	Other	Ending
	(In millions of Korean won)				
Deferred loan origination costs					
Loans in Korean won	₩326,475	₩152,591	₩113,292	₩—	₩365,774
Sub-total	326,475	152,591	113,292	—	365,774
Deferred loan origination fees					
Loans in Korean won	55,334	17,052	26,141	—	46,245
Credit card	17,249	5,661	20,472	—	2,438
Other origination fees	7,544	1,749	3,912	(2)	5,379
Sub-total	80,127	24,462	50,525	(2)	54,062
Total	₩246,348	₩128,129	₩ 62,767	₩ 2	₩311,712

	For the year Ended December 31, 2011				
	Beginning	Increase	Decrease	Other	Ending
	(In millions of Korean won)				
Deferred loan origination costs					
Loans in Korean won	₩365,774	₩254,099	₩171,751	₩—	₩448,122
Other origination costs	—	263	62	—	201
Sub-total	365,774	254,362	171,813	—	448,323
Deferred loan origination fees					
Loans in Korean won	46,245	17,723	20,726	—	43,242
Credit card	2,438	—	2,332	—	106
Other origination fees	5,379	2,211	2,487	1	5,104
Sub-total	54,062	19,934	25,545	1	48,452
Total	₩311,712	₩234,428	₩146,268	₩ (1)	₩399,871

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2010 and 2011, are as follows:

	For the year Ended December 31, 2010			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Beginning	₩ 415,340	₩ 2,516,459	₩ 336,955	₩ 3,268,754
Written-off	(274,179)	(1,615,992)	(388,759)	(2,278,930)
Recoveries from written-off loans	129,864	136,447	246,138	512,449
Sale	(16,217)	(176,044)	(1,103)	(193,364)
Provision(Reversal) ⁽¹⁾	264,966	2,065,676	133,224	2,463,866
Other changes	1,068	(18,799)	1,132	(16,599)
Ending	₩ 520,842	₩ 2,907,747	₩ 327,587	₩ 3,756,176
	For the year Ended December 31, 2011			
	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Beginning	₩ 520,842	₩ 2,907,747	₩ 327,587	₩ 3,756,176
Written-off	(286,895)	(1,481,877)	(412,642)	(2,181,414)
Recoveries from written-off loans	119,925	166,696	203,658	490,279
Sale	(17,947)	(221,809)	(94)	(239,850)
Provision(Reversal) ⁽¹⁾	295,871	1,115,831	232,932	1,644,634
Other changes	3,680	(24,541)	(1,059)	(21,920)
Ending	₩ 635,476	₩ 2,462,047	₩ 350,382	₩ 3,447,905

(1) Provision for credit losses in statements of comprehensive income also include provision for unused commitments and guarantees(Note 23), provision for financial guarantee contracts(Note 23), and provision for other financial asset(Note 17).

The amounts of written-off loans, over which the Group still has a right to claim against the borrowers and guarantors, are ₩11,725,914 million, ₩13,105,365 million and ₩14,118,853 million, as of January 1, 2010, and December 31, 2010 and 2011, respectively.

The coverage ratio of allowances for loan losses as of January 1, 2010, and December 31, 2010 and 2011, is as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Loans	₩199,955,598	₩201,377,180	₩215,554,932
Allowances for loan losses	3,268,754	3,756,176	3,447,905
Ratio (%)	1.63	1.87	1.60

12. Financial assets at fair value through profit or loss and Financial investments

The details of financial assets at fair value through profit or loss and financial investments as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Financial assets held for trading			
Debt securities:			
Government and public bonds	₩ 1,167,056	₩ 742,484	₩ 1,507,503
Financial bonds	2,480,909	2,106,979	2,837,144
Corporate bonds	461,517	459,481	586,416
Asset-backed securities	116,450	171,712	134,943
Others	59,718	56,043	110,518
Equity securities:			
Stocks	143,400	57,933	187,181
Beneficiary certificates	146,131	358,295	224,927
Others	16,781	14,835	28,625
Total financial assets held for trading	4,591,962	3,967,762	5,617,257
Financial assets designated at fair value through profit or loss			
Debt securities:			
Financial bond	529	139	—
Equity securities:			
Beneficiary certificates	—	45,412	134,160
Derivative linked securities	—	—	574,687
Total financial assets designated at fair value through profit or loss	529	45,551	708,847
Total financial assets at fair value through profit or loss	₩ 4,592,491	₩ 4,013,313	₩ 6,326,104
Available-for-sale financial assets			
Debt securities:			
Government and public bonds	₩ 6,782,883	₩ 6,741,084	₩ 5,988,659
Financial bonds	5,913,528	5,758,716	6,432,081
Corporate bonds	3,951,988	4,586,077	5,375,387
Asset-backed securities	2,017,426	1,830,881	1,757,482
Others	203,735	208,966	180,922
Equity securities:			
Stocks	1,982,409	1,910,970	1,911,108
Equity investments	64,210	85,131	87,917
Beneficiary certificates	905,244	1,159,723	643,468
Total available-for-sale financial assets	21,821,423	22,281,548	22,377,024

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Held-to-maturity financial assets			
Debts securities:			
Government and public bonds	5,753,518	6,339,677	5,435,754
Financial bonds	2,722,770	1,215,746	1,125,326
Corporate bonds	4,497,002	5,960,379	6,155,467
Asset-backed securities	241,997	392,300	338,611
Total held-to-maturity financial assets	<u>13,215,287</u>	<u>13,908,102</u>	<u>13,055,158</u>
Total financial investments	<u>₩35,036,710</u>	<u>₩36,189,650</u>	<u>₩35,432,182</u>

The impairment losses and the reversal of impairment losses in financial investments for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the year Ended December 31, 2010</u>		
	<u>Impairment</u>	<u>Reversal</u>	<u>Net</u>
	(In millions of Korean won)		
Available-for-sale financial assets	₩ (48,184)	₩ —	₩(48,184)
Held-to-maturity financial assets	(523)	4	(519)
Total	<u>₩ (48,707)</u>	<u>₩ 4</u>	<u>₩(48,703)</u>
	<u>For the year Ended December 31, 2011</u>		
	<u>Impairment</u>	<u>Reversal</u>	<u>Net</u>
	(In millions of Korean won)		
Available-for-sale financial assets	₩ (51,072)	₩ —	₩(51,072)
Held-to-maturity financial assets	(150)	117	(33)
Total	<u>₩ (51,222)</u>	<u>₩ 117</u>	<u>₩(51,105)</u>

13. Investments in associates and joint ventures

Investments in associates and joint ventures as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010				Industry	Location
	Ownership	Acquisition cost	Share of net asset amount	Carrying amount		
	(%)	(In millions of Korean won)				
Associates						
Balhae Infrastructure Fund ⁽¹⁾	12.61	₩ 110,962	₩114,623	₩114,623	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ⁽¹⁾	9.00	4,500	2,769	2,769	Credit Information	Korea
UAMCO., Ltd. ⁽¹⁾	17.50	12,250	11,992	11,992	Other finance	Korea
JSC Bank CenterCredit ^{(2),(5)}	30.52	817,539	226,940	474,502	Banking	Kazakhstan
Powerrex Corporation Co., Ltd. ⁽⁴⁾	18.75	1,500	1,782	1,782	Manufacture of machine	Korea
Semiland Co., Ltd	24.42	1,470	1,886	1,886	Manufacture	Korea
Seho Robo Ind. Co., Ltd	22.73	223	605	605	Manufacture of machine	Korea
Serit Platform Co., Ltd	21.72	1,500	1,500	1,500	Manufacture of communication equipment	Korea
Sehwa Electronics Co., Ltd	20.95	3,508	3,508	3,508	Manufacture of electronic components	Korea
Testian Co., Ltd. ⁽³⁾	14.29	500	500	500	Manufacture of semiconductor equipment	Korea
Ray Co., Ltd. ⁽¹⁾	10.88	1,050	1,050	1,050	Manufacture of radiation equipment	Korea
Sub-total		<u>955,002</u>	<u>367,155</u>	<u>614,717</u>		
Joint venture						
Burrill-KB Life Science Fund	—	—	—	—	New growth power biotech corporation investment	Korea
Total		<u>₩ 955,002</u>	<u>₩367,155</u>	<u>₩614,717</u>		

As of December 31, 2010

	Ownership	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
	(%)	(In millions of Korean won)				
Associates						
Balhae Infrastructure Fund ⁽¹⁾ . . .	12.61	₩ 116,534	₩ 120,274	₩120,274	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ⁽¹⁾	9.00	4,500	3,194	3,194	Credit Information	Korea
UAMCO., Ltd. ⁽¹⁾	17.50	85,050	85,622	85,622	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share ^{(2), (5)}	29.56	954,104	268,387	390,157	Banking	Kazakhstan
Preference share ⁽²⁾	93.15					
KoFC KBIC Frontier						
Champ 2010-5 (PEF)	50.00	10,500	10,469	10,438	Investment finance	Korea
KB Global Star Game & Apps						
SPAC ^{(1), (5)}	3.23	1,031	1,034	1,034	SPAC	Korea
Powerrex Corporation Co., Ltd. ⁽⁴⁾	18.75	1,500	1,951	1,951	Manufacture of machine	Korea
Semiland Co., Ltd	21.32	1,470	2,095	2,095	Manufacture	Korea
Seho Robo Ind. Co., Ltd	22.73	223	820	820	Manufacture of machine	Korea
					Manufacture of communication	
Serit Platform Co., Ltd	21.72	1,500	1,438	1,438	equipment	Korea
					Manufacture of electronic	
Sehwa Electronics Co., Ltd	20.95	3,508	3,385	3,385	components	Korea
					Manufacture of semiconductor	
Testian Co., Ltd. ⁽³⁾	20.40	820	857	857	equipment	Korea
Solice Co., Ltd	20.30	2,007	2,007	2,007	Manufacture of machine	Korea
					Manufacture of electronic	
KT Wibro infrastructure	40.34	100,000	100,139	100,139	components	Korea
Joam Housing Development						
Co., Ltd. ⁽¹⁾	15.00	8	—	—	Housing	Korea
Ilssan Elecom (Shenyang) Co., Ltd	100.00	2,140	(960)	—	Manufacture of electronic	China
					components	
Sub-total		<u>1,284,895</u>	<u>600,712</u>	<u>723,411</u>		
Joint venture						
Burrill-KB Life Science						
Fund	35.53	372	—	—	New growth power biotech	Korea
					corporation investment	
Total		<u>₩1,285,267</u>	<u>₩ 600,712</u>	<u>₩723,411</u>		

As of December 31, 2011

	Ownership	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
	(%)	(In millions of Korean won)				
Associates						
Balhae Infrastructure Fund ⁽¹⁾	12.61	₩ 125,597	₩ 128,778	₩128,778	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ⁽¹⁾	9.00	4,500	3,766	3,766	Credit Information	Korea
UAMCO., Ltd. ⁽¹⁾	17.50	85,050	103,617	109,531	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share ^{(2), (5)}	29.56	954,104	271,941	365,059	Banking	Kazakhstan
Preference share ⁽²⁾	93.15					
KoFC KBIC Frontier Champ 2010-5 (PEF)	50.00	28,850	28,840	28,831	Investment finance	Korea
KB Global Star Game & Apps						
SPAC ^{(1), (5)}	0.23	20	48	48	SPAC	Korea
Semiland Co., Ltd	21.32	1,470	2,247	2,247	Manufacture of communication equipment	Korea
Serit Platform Co., Ltd	21.72	1,500	1,451	1,451	Manufacture of electronic components	Korea
Sehwa Electronics Co., Ltd	20.95	3,508	3,454	3,454	Manufacture of semiconductor equipment	Korea
Testian Co., Ltd. ⁽³⁾	19.90	820	789	789	Manufacture of machine components	Korea
DS Plant Co., Ltd. ⁽³⁾	—	—	—	—	Manufacture of electronic components	Korea
KT Wibro infrastructure	40.34	100,000	104,049	104,049	Housing	Korea
Joam Housing Development Co., Ltd. ⁽¹⁾	15.00	8	—	—	Housing	Korea
United PF 1 st Recovery Private Equity Fund ⁽¹⁾	18.50	148,000	149,099	143,437	Other finance	Korea
Ilssan Elecom (Shenyang) Co., Ltd	100.00	2,140	(1,270)	—	Manufacture of electronic components	China
Qingdao Danam Electronics Co., Ltd	100.00	692	692	692	Manufacture of electronic components	China
Total		<u>₩1,456,259</u>	<u>₩ 797,501</u>	<u>₩892,132</u>		

- (1) As of January 1, 2010 and December 31, 2010 and 2011, the Group represents on governing body of Balhae Infrastructure Fund, Korea Credit Bureau Co., Ltd., UAMCO., Ltd., KB Global Star Game & Apps SPAC, Joam Housing Development Co., Ltd., United PF 1st Recovery Private Equity Fund and Ray Co., Ltd. and business relationships with those associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.
- (2) The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank CenterCredit.
- (3) The Group's ownership in DS Plant Co., Ltd. and Testian Co., Ltd. are 21.05%, 27.39% (January 1, 2010: 23.81%, December 31, 2010: 27.39%), respectively, when the potential voting rights from redeemable convertible preference shares and convertible bond held by the Group are taken into account as of December 31, 2011.
- (4) The Group's ownership in Powerrex Corporation Co., Ltd. are 33.54%, 33.54% respectively, when the potential voting rights from redeemable convertible preference shares held by the Group are taken into account as of January 1, 2010 and December 31, 2010.
- (5) Fair value of ordinary shares of JSC Bank CenterCredit, reflecting the published market price, as of January 1, 2010 and December 31, 2010 and 2011, are ₩ 262,601 million, ₩ 217,164 million and ₩ 89,669 million, respectively and fair value of shares of KB Global Star Game & Apps SPAC, reflecting the published market price, as of December 31, 2011 is ₩ 47 million.

Summarized financial information on associates and joint ventures:

	As of January 1, 2010			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Capital stock</u>	<u>Equity</u>
	(In millions of Korean won)			
Associates				
Balhae Infrastructure Fund	₩ 911,332	₩ 1,985	₩ 880,301	₩909,347
Korea Credit Bureau Co., Ltd	36,807	6,040	10,000	30,767
UAMCO., Ltd	68,710	185	350	68,525
JSC Bank CenterCredit	9,114,674	8,371,096	414,001	743,578
Powerrex Corporation Co., Ltd	21,547	18,244	800	3,303
Semiland Co., Ltd	8,771	4,716	985	4,055
Seho Robo Ind. Co., Ltd	6,344	3,684	966	2,660
Serit Platform Co., Ltd	6,213	3,742	1,000	2,471
Sehwa Electronics Co., Ltd	29,891	13,750	1,050	16,141
Testian Co., Ltd	1,793	1,474	875	319
Ray Co., Ltd	1,795	2,021	965	(226)
Joint venture				
Burrill-KB Life Science Fund	—	612	—	(612)

	As of and for the Year Ended December 31, 2010					
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Capital stock</u>	<u>Equity</u>	<u>Revenues</u>	<u>Profit(loss)</u>
	(In millions of Korean won)					
Associates						
Balhae Infrastructure Fund	₩ 956,234	₩ 2,061	₩ 903,305	₩954,173	₩ 66,474	₩ 58,580
Korea Credit Bureau Co., Ltd	44,983	9,507	10,000	35,476	33,055	4,709
UAMCO., Ltd	1,782,180	1,292,911	2,430	489,269	27,204	4,745
JSC Bank CenterCredit	9,451,778	8,811,764	546,794	640,014	240,362	(232,669)
KoFC KBIC Frontier Champ 2010-5 (PEF)	20,991	53	21,000	20,938	—	(63)
KB Global Star Game & Apps SPAC	21,124	1,206	862	19,918	—	(898)
Powerrex Corporation Co., Ltd	16,020	13,218	800	2,802	7,675	(500)
Semiland Co., Ltd	9,660	5,072	985	4,588	5,902	550
Seho Robo Ind. Co., Ltd	8,696	5,087	966	3,609	6,147	949
Serit Platform Co., Ltd	6,646	4,460	1,000	2,186	3,185	(284)
Sehwa Electronics Co., Ltd	31,511	15,955	1,050	15,556	21,903	(532)
Testian Co., Ltd	2,442	1,549	1,005	893	274	54
Solice Co., Ltd	15,231	9,823	2,291	5,408	13,673	286
KT Wibro infrastructure	255,680	7,619	24,792	248,061	—	139
Joam Housing Development Co., Ltd	68,763	71,707	50	(2,944)	595	(2,994)
IlssanElecom (Shenyang) Co., Ltd	1,895	2,855	2,140	(960)	3,620	17
Joint venture						
Burrill-KB Life Science Fund	—	1,612	1,048	(1,612)	1	(2,048)

As of and for the Year Ended December 31, 2011

	Total assets	Total liabilities	Capital stock	Equity	Revenues	Profit(loss)
	(In millions of Korean won)					
Associates						
Balhae Infrastructure Fund	₩1,023,825	₩ 2,187	₩ 971,835	₩1,021,638	₩ 63,530	₩ 55,069
Korea Credit Bureau Co., Ltd	51,484	9,651	10,000	41,833	40,535	6,357
UAMCO., Ltd	3,738,326	3,146,227	2,430	592,099	468,220	106,274
JSC Bank CenterCredit	8,392,599	7,744,111	546,794	648,488	352,383	10,627
KoFC KBIC Frontier Champ 2010-5 (PEF)	58,015	334	57,700	57,681	2,210	1,065
KB Global Star Game & Apps SPAC . .	21,755	1,260	862	20,495	—	173
Semiland Co., Ltd	11,074	6,080	985	4,994	5,996	387
Serit Platform Co., Ltd	5,985	3,590	1,000	2,395	4,617	(203)
Sehwa Electronics Co., Ltd	27,378	11,487	1,050	15,891	13,812	43
Testian Co., Ltd	2,442	1,651	1,030	791	426	62
DS Plant Co., Ltd	10,431	7,166	600	3,265	12,518	601
KT Wibro infrastructure	277,933	25,963	24,792	251,970	1,719	2,310
Joam Housing Development Co., Ltd . .	85,714	89,485	50	(3,771)	18,451	(828)
United PF 1st Recovery Private Equity Fund	836,104	30,162	800,000	805,942	58,529	5,942
IlssanElecom (Shenyang) Co., Ltd	1,094	2,364	2,140	(1,270)	4,360	(205)
Qingdao Danam Electronics Co., Ltd . .	1,394	702	4,733	692	—	—

The changes in investments in associates and joint ventures for the years ended December 31, 2010 and 2011, are as follows:

For the year Ended December 31, 2010							
	<u>Beginning</u>	<u>Acquisition (disposal)</u>	<u>Dividends</u>	<u>Gains (losses)</u>	<u>Other compre- hensive income</u>	<u>Impairment loss</u>	<u>Ending</u>
(In millions of Korean won)							
Associates							
Balhae Infrastructure Fund	₩114,623	₩ 5,572	₩ (7,305)	₩ 7,384	₩ —	₩ —	₩120,274
Korea Credit Bureau Co., Ltd	2,769	—	—	425	—	—	3,194
UAMCO., Ltd	11,992	72,800	—	830	—	—	85,622
JSC Bank CenterCredit ⁽¹⁾	474,502	136,565	(3)	(92,136)	(2,009)	(126,762)	390,157
KoFC KBIC Frontier Champ 2010-5 (PEF)	—	10,500	—	(62)	—	—	10,438
KB Global Star Game & Apps SPAC	—	1,033	—	(4)	5	—	1,034
Powerrex Corporation Co., Ltd	1,782	—	—	169	—	—	1,951
Semiland Co., Ltd	1,886	—	(11)	220	—	—	2,095
Seho Robo Ind. Co., Ltd	605	—	—	215	—	—	820
Serit Platform Co., Ltd	1,500	—	—	(62)	—	—	1,438
Sehwa Electronics Co., Ltd	3,508	—	(11)	(112)	—	—	3,385
Testian Co., Ltd	500	320	—	37	—	—	857
Solice Co., Ltd	—	2,007	—	—	—	—	2,007
Ray Co., Ltd	1,050	(1,050)	—	—	—	—	—
KT Wibro infrastructure	—	100,000	—	139	—	—	100,139
Joam Housing Development Co., Ltd.	—	8	—	(8)	—	—	—
IlssanElecom(Shenyang) Co., Ltd	—	—	—	—	—	—	—
Sub-total	<u>614,717</u>	<u>327,755</u>	<u>(7,330)</u>	<u>(82,965)</u>	<u>(2,004)</u>	<u>(126,762)</u>	<u>723,411</u>
Joint venture							
Burrill-KB Life Science Fund	—	372	—	(372)	—	—	—
Total	<u>₩614,717</u>	<u>₩328,127</u>	<u>₩ (7,330)</u>	<u>₩(83,337)</u>	<u>₩(2,004)</u>	<u>₩(126,762)</u>	<u>₩723,411</u>

For the year Ended December 31, 2011

	<u>Beginning</u>	<u>Acquisition (disposal)</u>	<u>Dividends</u>	<u>Gains (losses)</u>	<u>Other compre- hensive income</u>	<u>Impair- ment loss</u>	<u>Others</u>	<u>Ending</u>
	(In millions of Korean won)							
Associates								
Balhae Infrastructure Fund . . .	₩120,274	₩ 9,063	₩ (7,501)	₩ 6,942	₩ —	₩ —	₩—	₩128,778
Korea Credit Bureau Co., Ltd	3,194	—	—	572	—	—	—	3,766
UAMCO., Ltd	85,622	—	—	23,909	—	—	—	109,531
JSC Bank CenterCredit ⁽¹⁾	390,157	—	(3)	(4,652)	45	(20,488)	—	365,059
KoFC KBIC Frontier Champ 2010-5 (PEF)	10,438	18,350	—	554	(511)	—	—	28,831
KB Global Star Game & Apps SPAC	1,034	(1,011)	—	17	(6)	—	14	48
Powerrex Corporation Co., Ltd	1,951	—	—	(1,951)	—	—	—	—
Semiland Co., Ltd	2,095	—	(11)	163	—	—	—	2,247
Seho Robo Ind. Co., Ltd	820	(1,358)	—	538	—	—	—	—
Serit Platform Co., Ltd	1,438	—	—	13	—	—	—	1,451
Sehwa Electronics Co., Ltd . .	3,385	—	—	53	16	—	—	3,454
Testian Co., Ltd	857	—	—	(68)	—	—	—	789
Solice Co., Ltd	2,007	(2,007)	—	—	—	—	—	—
KT Wibro infrastructure	100,139	—	—	3,910	—	—	—	104,049
Joam Housing Development Co., Ltd.	—	—	—	—	—	—	—	—
United PF 1st Recovery Private Equity Fund	—	148,000	—	(4,563)	—	—	—	143,437
IlsanElecom(Shenyang) Co., Ltd	—	—	—	—	—	—	—	—
Qingdao Danam Electronics Co., Ltd.	—	692	—	—	—	—	—	692
Sub-total	<u>723,411</u>	<u>171,729</u>	<u>(7,515)</u>	<u>25,437</u>	<u>(456)</u>	<u>(20,488)</u>	<u>14</u>	<u>892,132</u>
Joint venture								
Burrill-KB Life Science Fund	—	—	—	—	—	—	—	—
Total	<u>₩723,411</u>	<u>₩171,729</u>	<u>₩ (7,515)</u>	<u>₩25,437</u>	<u>₩ (456)</u>	<u>₩(20,488)</u>	<u>₩ 14</u>	<u>₩892,132</u>

(1) Kazakhstan has been experiencing liquidity problems and roll-over of borrowings in the financial sector due to depression of its domestic economy mainly driven by delays of recovery in the local real estate market and global credit crunch. The Group determined that the decrease in the investment value of its BCC shares were not expected to recover in the near future due to an adverse economic condition in Kazakhstan, particularly the real estate market and the fact that loan portfolio of BCC consisted mainly of loans collateralized by real estates. The recoverable amount of shares of JSC Bank CenterCredit, obtained from an independent third-party valuation service as of December 31, 2010 and 2011, amounts to ₩ 390,157 million and ₩ 365,059 million, respectively. Carrying amount of shares of JSC Bank CenterCredit before recognizing impairment losses, amounts to ₩ 516,919 million and ₩ 385,547 million, respectively.

Accumulated unrecognized share of losses of an associate and joint venture due to discontinued recognition of Group's share of losses as of December 31, 2010 and 2011, are as follows:

	As of December 31, 2010			
	Unrecognized loss		Unrecognized change in equity	
	(In millions of Korean won)			
Joam Housing Development Co., Ltd.	₩	(442)	₩	—
IlssanElecom(Shenyang) Co., Ltd.		(960)		—
Burrill-KB Life Science Fund		(200)		—

	As of December 31, 2011			
	Unrecognized loss		Unrecognized change in equity	
	(In millions of Korean won)			
Joam Housing Development Co., Ltd..	₩	(566)	₩	—
IlssanElecom(Shenyang) Co., Ltd		(1,165)		(105)

14. Property and Equipment, and Investment Property

The details of property and equipment as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩ 2,010,300	₩ —	₩ (586)	₩2,009,714
Buildings	1,138,390	(245,309)	(3,498)	889,583
Leasehold improvements	397,499	(335,781)	—	61,718
Equipment and vehicles	1,781,709	(1,507,631)	—	274,078
Construction in-progress	350	—	—	350
Financial lease assets	33,045	(10,577)	—	22,468
Total	₩ 5,361,293	₩(2,099,298)	₩ (4,084)	₩3,257,911

	As of December 31, 2010			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩ 2,023,447	₩ —	₩ (583)	₩2,022,864
Buildings	1,168,155	(274,267)	(2,668)	891,220
Leasehold improvements	429,790	(379,156)	—	50,634
Equipment and vehicles	1,640,867	(1,466,049)	—	174,818
Construction in-progress	119	—	—	119
Financial lease assets	33,045	(22,440)	—	10,605
Total	₩ 5,295,423	₩(2,141,912)	₩ (3,251)	₩3,150,260

As of December 31, 2011				
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
(In millions of Korean won)				
Land	₩ 2,022,943	₩ —	₩ (581)	₩2,022,362
Buildings	1,200,813	(301,947)	(2,661)	896,205
Leasehold improvements	484,328	(424,742)	—	59,586
Equipment and vehicles	1,710,477	(1,513,746)	—	196,731
Construction in-progress	1,075	—	—	1,075
Financial lease assets	43,756	(33,695)	—	10,061
Total	₩ 5,463,392	₩(2,274,130)	₩ (3,242)	₩3,186,020

The changes in property and equipment for the years ended December 31, 2010 and 2011, are as follows:

For the year Ended December 31, 2010							
	Beginning	Acquisition	Transfers ⁽¹⁾	Disposal	Depreciation ⁽²⁾	Others	Ending
(In millions of Korean won)							
Land	₩2,009,714	₩ —	₩ 12,475	₩(1,437)	₩ —	₩2,112	₩2,022,864
Buildings	889,583	40	28,622	(1,022)	(27,395)	1,392	891,220
Leasehold Improvements	61,718	1,366	27,346	(169)	(44,887)	5,260	50,634
Equipment and vehicles	274,078	67,066	—	(379)	(166,011)	64	174,818
Construction in-progress	350	52,307	(52,538)	—	—	—	119
Financial lease assets	22,468	—	—	—	(11,863)	—	10,605
Total	₩3,257,911	₩120,779	₩ 15,905	₩(3,007)	₩ (250,156)	₩8,828	₩3,150,260

(1) Including transfers with investment property and assets held for sale.

(2) Including ₩ 96 million recorded in other operating expenses in the statement of comprehensive income.

For the year Ended December 31, 2011							
	Beginning	Acquisition	Transfers ⁽¹⁾	Disposal	Depreciation ⁽²⁾	Others	Ending
(In millions of Korean won)							
Land	₩2,022,864	₩ 195	₩ (706)	₩ (18)	₩ —	₩ 27	₩2,022,362
Buildings	891,220	3,019	30,207	(26)	(28,307)	92	896,205
Leasehold Improvements	50,634	11,414	39,195	(423)	(47,447)	6,213	59,586
Equipment and vehicles	174,818	160,319	—	(847)	(137,559)	—	196,731
Construction in-progress	119	76,258	(75,302)	—	—	—	1,075
Financial lease assets	10,605	10,700	—	—	(11,244)	—	10,061
Total	₩3,150,260	₩261,905	₩ (6,606)	₩(1,314)	₩ (224,557)	₩6,332	₩3,186,020

(1) Including transfers with investment property and assets held for sale.

(2) Including ₩ 122 million recorded in other operating expenses in the statement of comprehensive income.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2010 and 2011, are as follows:

For the year Ended December 31, 2010					
Beginning	Impairment	Reversal	Others	Ending	
(In millions of Korean won)					
₩ (4,084)	₩ —	₩ —	₩ 833	₩ (3,251)	

For the year Ended December 31, 2011					
Beginning	Impairment	Reversal	Others	Ending	
(In millions of Korean won)					
₩ (3,251)	₩ —	₩ —	₩ 9	₩ (3,242)	

The details of investment property as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010					
	Acquisition cost		Accumulated depreciation		Carrying amount	
	(In millions of Korean won)					
Land	₩ 50,037	₩ —	₩ —	₩ —	₩ 50,037	₩ 50,037
Buildings	23,524	(5,584)			17,940	17,940
Total	₩ 73,561	₩ (5,584)			₩ 67,977	₩ 67,977
	As of December 31, 2010					
	Acquisition cost		Accumulated depreciation		Carrying amount	
	(In millions of Korean won)					
Land	₩ 38,633	₩ —	₩ —	₩ —	₩ 38,633	₩ 38,633
Buildings	18,941	(4,653)			14,288	14,288
Total	₩ 57,574	₩ (4,653)			₩ 52,921	₩ 52,921
	As of December 31, 2011					
	Acquisition cost		Accumulated depreciation		Carrying amount	
	(In millions of Korean won)					
Land	₩ 37,451	₩ —	₩ —	₩ —	₩ 37,451	₩ 37,451
Buildings	18,961	(4,860)			14,101	14,101
Total	₩ 56,412	₩ (4,860)			₩ 51,552	₩ 51,552

As of January 1, 2010 and December 31, 2010 and 2011, fair values of the investment properties amount to ₩ 67,471 million, ₩ 52,740 million and, ₩ 48,996 million, respectively. The investment properties were valued by qualified independent appraisers with experience in valuing similar properties in the same location.

Rental income from the above investment properties for the years ended December 31, 2010 and 2011, amounts to ₩ 1,122 million and ₩ 683 million, respectively.

The changes in investment property for the year ended December 31, 2010 and 2011, are as follows:

	For the year Ended December 31, 2010			
	Beginning	Transfers	Depreciation	Ending
	(In millions of Korean won)			
Land	₩50,037	₩(11,404)	₩ —	₩38,633
Buildings	17,940	(3,205)	(447)	14,288
Total	₩67,977	₩(14,609)	₩ (447)	₩52,921
	For the year Ended December 31, 2011			
	Beginning	Transfers	Depreciation	Ending
	(In millions of Korean won)			
Land	₩38,633	₩(1,182)	₩ —	₩37,451
Buildings	14,288	264	(451)	14,101
Total	₩52,921	₩ (918)	₩ (451)	₩51,552

Property and equipment insured as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

Type	Assets insured	Insurance coverage			Insurance company
		As of January 1,	As of December 31,		
		2010	2010	2011	
(In millions of Korean won)					
General property insurance	Buildings ⁽¹⁾	₩ 965,269	₩ 986,576	₩1,061,097	Samsung Fire & Marine Insurance Co., Ltd. and others
	Leasehold improvements	172,467	144,267	134,595	
	Equipment and vehicles and others	342,144	168,920	179,804	
	Total	₩ 1,479,880	₩1,299,763	₩1,375,496	

(1) Buildings include office buildings, investment properties and assets held for sale.

15. Intangible Assets

The details of intangible assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Acquisition cost	Accumulated amortization	Carrying amount
	(In millions of Korean won)		
Goodwill	₩ 136,755	₩ —	₩136,755
Other intangible assets	471,955	(206,133)	265,822
Total	₩ 608,710	₩(206,133)	₩402,577

	As of December 31, 2010		
	Acquisition cost	Accumulated amortization	Carrying amount
	(In millions of Korean won)		
Goodwill	₩ 143,209	₩ —	₩143,209
Other intangible assets	670,899	(309,188)	361,711
Total	₩ 814,108	₩(309,188)	₩504,920

	As of December 31, 2011			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Goodwill	₩ 143,209	₩ —	₩ —	₩ 143,209
Other intangible assets	760,538	(421,380)	(13,926)	325,232
Total	₩ 903,747	₩(421,380)	₩ (13,926)	₩ 468,441

The details of goodwill as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,		As of December 31,			
	2010		2010		2011	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
	(In millions of Korean won)					
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202	1,202	1,202
KB Investment Securities	70,265	70,265	70,265	70,265	70,265	70,265
Powernet Technologies Co., Ltd	—	—	6,454	6,454	6,454	6,454
Total	₩136,755	₩136,755	₩143,209	₩143,209	₩143,209	₩143,209

The goodwill related to Housing & Commercial Bank (“H&CB”), KB Cambodia Bank and KB Investment Securities arose prior to the IFRS transition date, and the carrying amount of goodwill as of the IFRS transition date was its carrying amount in accordance with previous K-GAAP.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2011, are as follows:

	Housing & Commercial Bank		KB Cambodia Bank	KB Investment Securities	Powernet Technologies Co., Ltd.	Total
	Retail banking	Corporate banking				
	(In millions of Korean won)					
Carrying amounts	₩ 49,315	₩15,973	₩ 1,202	₩70,265	₩ 6,454	₩143,209
Recoverable amount exceeded carrying amount	114,763	96,851	893	48,176	1,157	261,840
Discount rate (%)	16.0	15.0	18.9	16.4	15.5	
Permanent growth rate (%)	2.3	2.3	4.7	2.3	2.3	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩65,288 million related to goodwill acquired in merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩49,315 million and ₩15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale, the Group measures the fair value less costs to sell by adjusting the amount obtained from the sale of similar cash-generating units, reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset’s value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows

are based on the most recent financial budget approved by management and cover a maximum period of five years. The future cash flows after a maximum period of five years are estimated on the assumption that the future cash flows will increase by 2.3% for Retail Banking, Corporate Banking, KB Investment Securities, and Powernet Technologies Co., Ltd. and 4.7% for KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Acquisition cost	Accumulated amortization	Carrying amount
	(In millions of Korean won)		
Industrial property rights	₩ 946	₩ (832)	₩ 114
Software	305,963	(145,082)	160,881
Other intangible assets	151,390	(57,753)	93,637
Finance leases assets	13,656	(2,466)	11,190
Total	<u>₩471,955</u>	<u>₩(206,133)</u>	<u>₩265,822</u>

	As of December 31, 2010		
	Acquisition cost	Accumulated amortization	Carrying amount
	(In millions of Korean won)		
Industrial property rights	₩ 955	₩ (870)	₩ 85
Software	495,715	(238,178)	257,537
Other intangible assets	160,573	(64,261)	96,312
Finance leases assets	13,656	(5,879)	7,777
Total	<u>₩670,899</u>	<u>₩(309,188)</u>	<u>₩361,711</u>

	As of December 31, 2011			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Industrial property rights	₩ 1,025	₩ (919)	₩ —	₩ 106
Software	556,739	(340,421)	—	216,318
Other intangible assets	183,714	(69,396)	(13,926)	100,392
Finance leases assets	19,060	(10,644)	—	8,416
Total	<u>₩760,538</u>	<u>₩(421,380)</u>	<u>₩ (13,926)</u>	<u>₩325,232</u>

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010				
	Beginning	Acquisition	Amortization ⁽¹⁾	Others	Ending
	(In millions of Korean won)				
Industrial property rights	₩ 114	₩ 9	₩ (38)	₩—	₩ 85
Software	160,881	184,293	(87,637)	—	257,537
Other intangible assets	93,637	8,821	(6,143)	(3)	96,312
Finance leases assets	11,190	—	(3,413)	—	7,777
Total	<u>₩265,822</u>	<u>₩193,123</u>	<u>₩ (97,231)</u>	<u>₩ (3)</u>	<u>₩361,711</u>

(1) Including ₩46 million recorded in other operating expenses in the statement of comprehensive income.

	For the Year Ended December 31, 2011						
	Beginning	Acquisition	Disposal	Transfer	Amortization ⁽¹⁾	Others	Ending
	(In millions of Korean won)						
Industrial property rights	₩ 85	₩ 28	₩ —	₩ —	₩ (42)	₩ 35	₩ 106
Software	257,537	64,826	—	435	(106,480)	—	216,318
Other intangible assets	96,312	34,142	(9,310)	(435)	(6,361)	(13,956)	100,392
Finance leases assets	7,777	5,404	—	—	(4,765)	—	8,416
Total	<u>₩361,711</u>	<u>₩104,400</u>	<u>₩(9,310)</u>	<u>₩ —</u>	<u>₩ (117,648)</u>	<u>₩(13,921)</u>	<u>₩325,232</u>

(1) Including ₩41 million recorded in other operating expenses in the statement of comprehensive income.

The changes in accumulated impairment losses on intangible assets for the year ended December 31, 2011, are as follows:

	Beginning ⁽¹⁾	Impairment	Reversal	Others	Ending
Accumulated impairment losses on intangible assets	₩ —	₩(13,926)	₩ —	₩—	₩(13,926)

(1) As of December 31, 2010, there are no accumulated impairment losses on intangible assets.

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Assets	Liabilities	Net amount
	(In millions of Korean won)		
Other provisions	₩ 186,852	₩ (81,774)	₩ 105,078
Allowances for loan losses	2,926	(128,378)	(125,452)
Impairment losses on property and equipment	2,097	—	2,097
Interest on equity index-linked deposits	2,010	—	2,010
Provisions for guarantees	32,546	(10,978)	21,568
Losses(gains) from valuation on derivatives	4,197	(109,220)	(105,023)
Present value discount	—	(6,642)	(6,642)
Losses(gains) from fair value hedged item	—	(26,328)	(26,328)
Accrued interest	181	(21,343)	(21,162)
Deferred loan origination fees and costs	53	(55,261)	(55,208)
Advanced depreciation provisions	—	(111,542)	(111,542)
Losses(gains) from revaluation	—	(251,629)	(251,629)
Investments in subsidiaries and others	46,701	(2,583)	44,118
Others	361,614	(221,634)	139,980
Sub-total	639,177	(1,027,312)	(388,135)
Off-setting of deferred income tax assets and liabilities	(622,673)	622,673	—
Total	₩ 16,504	₩ (404,639)	₩(388,135)

	As of December 31, 2010		
	Assets	Liabilities	Net amount
	(In millions of Korean won)		
Other provisions	₩ 130,669	₩ (32)	₩ 130,637
Allowances for loan losses	4,642	(13,916)	(9,274)
Impairment losses on property and equipment	1,537	—	1,537
Interest on equity index-linked deposits	2,514	—	2,514
Share-based payments	3,176	—	3,176
Provisions for guarantees	99,484	—	99,484
Losses(gains) from valuation on derivatives	989	(122,808)	(121,819)
Present value discount	—	(16,147)	(16,147)
Losses(gains) from fair value hedged item	28,517	—	28,517
Accrued interest	—	(92,135)	(92,135)
Deferred loan origination fees and costs	41	(69,773)	(69,732)
Advanced depreciation provisions	—	(111,542)	(111,542)
Losses(gains) from revaluation	—	(251,418)	(251,418)
Dividends from SPEs	564	—	564
Investments in subsidiaries and others	46,354	(27,662)	18,692
Others	323,185	(215,769)	107,416
Sub-total	641,672	(921,202)	(279,530)
Off-setting of deferred income tax assets and liabilities	(637,627)	637,627	—
Total	₩ 4,045	₩(283,575)	₩(279,530)

As of December 31, 2011			
	Assets	Liabilities	Net amount
(In millions of Korean won)			
Other provisions	₩ 113,752	₩ (115)	₩ 113,637
Allowances for loan losses	200	(2,574)	(2,374)
Impairment losses on property and equipment	3,065	—	3,065
Interest on equity index-linked deposits	1,785	—	1,785
Share-based payments	4,069	—	4,069
Provisions for guarantees	75,326	—	75,326
Losses(gains) from valuation on derivatives	1,584	(109,427)	(107,843)
Present value discount	3,770	(12,603)	(8,833)
Losses(gains) from fair value hedged item	26,522	—	26,522
Accrued interest	—	(91,147)	(91,147)
Deferred loan origination fees and costs	49	(96,848)	(96,799)
Gains from revaluation	—	(276,505)	(276,505)
Investments in subsidiaries and others	24,943	(41,541)	(16,598)
Derivative linked securities	444,766	(446,837)	(2,071)
Others	433,962	(254,709)	179,253
Sub-total	<u>1,133,793</u>	<u>(1,332,306)</u>	<u>(198,513)</u>
Off-setting of deferred income tax assets and liabilities	<u>(1,111,464)</u>	<u>1,111,464</u>	<u>—</u>
Total	<u>₩ 22,329</u>	<u>₩ (220,842)</u>	<u>₩(198,513)</u>

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩47,625 million associated with investment in subsidiaries and associates as of December 31, 2011, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not reverse in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩65,288 million arising from the initial recognition of goodwill as of December 31, 2011.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩3,279,925 million associated with investments in subsidiaries and others as of December 31, 2011, because it is not probable that the temporary differences will reverse in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩2,546 million, ₩ 365 million, ₩ 80,204 million and ₩ 88,939 million associated with share-based payments, other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2011, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010			
	<u>Beginning</u>	<u>Decrease</u>	<u>Increase</u>	<u>Ending</u>
	(In millions of Korean won)			
Deductible temporary differences				
Gains (losses) from fair value hedged item	₩ —	₩ —	₩ 129,178	₩ 129,178
Other provisions	477,776	479,693	586,916	584,999
Accrued interest	746	746	—	—
Allowances for loan losses	13,570	18,037	24,736	20,269
Impairment losses on property and equipment	9,468	9,468	6,904	6,904
Deferred loan origination fees and costs	217	217	171	171
Interest on equity index-linked deposits	8,306	8,306	10,388	10,388
Share-based payments	46,572	46,572	30,271	30,271
Provisions for guarantees	91,988	91,988	414,048	414,048
Gains (losses) from valuation on derivatives	4,312	4,312	4,468	4,468
Dividends from SPEs	185,602	183,039	—	2,563
Loss on SPE repurchase	80,204	—	—	80,204
Investments in subsidiaries and others	3,361,305	109,029	231,000	3,483,276
Others	1,309,930	313,391	397,462	1,394,001
Sub-total	<u>5,589,996</u>	<u>1,264,798</u>	<u>1,835,542</u>	<u>6,160,740</u>
Unrecognized deferred income tax assets:				
Share based payments	46,572			15,834
Other provisions	344			1,477
Dividends from SPEs	185,602			—
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	3,148,284			3,271,732
Others	90,928			92,307
Total	<u>₩2,038,062</u>			<u>₩2,699,186</u>
Tax rate (%) ⁽¹⁾	<u>24.2, 22.0</u>			<u>24.2, 22.0</u>
Deferred income tax assets from deductible temporary differences				
	<u>₩ 639,177</u>			<u>₩ 641,672</u>

For the Year Ended December 31, 2010

	<u>Beginning</u>	<u>Decrease</u>	<u>Increase</u>	<u>Ending</u>
	(In millions of Korean won)			
Taxable temporary differences				
Gains (losses) from fair value hedged item	₩ (120,437)	₩ (120,437)	₩ —	₩ —
Accrued interest	(89,928)	(25,776)	(341,265)	(405,417)
Allowances for loans losses	(529,573)	(528,693)	(56,698)	(57,578)
Deferred loan origination fees and costs	(246,565)	(246,565)	(312,168)	(312,168)
Advanced depreciation provisions	(460,918)	—	—	(460,918)
Gains (losses) from valuation on derivatives	(476,513)	(476,513)	(502,897)	(502,897)
Present value discount	(40,058)	—	(30,936)	(70,994)
Goodwill	(65,288)	—	—	(65,288)
Gains on revaluation	(1,143,769)	(960)	—	(1,142,809)
Investments in subsidiaries and others	(3,068,353)	(3,484)	(185,617)	(3,250,486)
Others	(615,125)	(124,787)	(392,439)	(882,777)
Sub-total	<u>(6,856,527)</u>	<u>(1,527,215)</u>	<u>(1,822,020)</u>	<u>(7,151,332)</u>
Unrecognized deferred income tax liabilities:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(14,110)			(15,196)
Total	<u>₩(6,777,129)</u>			<u>₩(7,070,848)</u>
Tax rate (%) ⁽¹⁾	<u>24.2, 22.0</u>			<u>24.2, 22.0</u>
Deferred income tax liabilities from taxable				
temporary differences	<u>₩(1,027,312)</u>			<u>₩ (921,202)</u>

⁽¹⁾ The 24.2% has been applied for the deferred tax assets and liabilities expected to be utilized in the year ended December 31, 2011. And 22.0% has been applied for the deferred tax assets and liabilities expected to be utilized for periods after December 31, 2011.

For the Year Ended December 31, 2011

	<u>Beginning</u>	<u>Decrease</u>	<u>Increase</u>	<u>Ending</u>
	(In millions of Korean won)			
Deductible temporary differences				
Losses (gains) from fair value hedged item	₩ 129,178	₩ 129,178	₩ 109,596	₩ 109,596
Other provisions	584,999	894,311	779,819	470,507
Allowances for loan losses	20,269	35,642	16,200	827
Impairment losses on property and equipment	6,904	6,904	12,666	12,666
Deferred loan origination fees and costs	171	486	519	204
Interest on equity index-linked deposits	10,388	10,388	7,378	7,378
Share-based payments	30,271	30,271	19,359	19,359
Provisions for guarantees	414,048	428,288	325,503	311,263
Gains (losses) from valuation on derivatives	4,468	4,451	6,531	6,548
Present value discount	—	—	15,579	15,579
Dividends from SPEs	2,563	2,563	—	—
Loss on SPE repurchase	80,204	—	—	80,204
Investments in subsidiaries and others	3,483,276	85,278	(336)	3,397,662
Derivative linked securities	—	—	1,837,877	1,837,877
Others	1,394,001	1,352,107	1,805,161	1,847,055
Sub-total	<u>6,160,740</u>	<u>2,979,867</u>	<u>4,935,852</u>	<u>8,116,725</u>
Unrecognized deferred income tax assets:				
Share-based payments	15,834			2,546
Other provisions	1,477			365
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	3,271,732			3,279,925
Others	92,307			88,939
Total	<u>₩2,699,186</u>			<u>₩4,664,746</u>
Tax rate (%) ⁽¹⁾	<u>24.2, 22.0</u>			<u>24.2</u>
Total deferred income tax assets from deductible temporary differences	<u>₩ 641,672</u>			<u>₩1,133,793</u>

For the Year Ended December 31, 2011

	<u>Beginning</u>	<u>Decrease</u>	<u>Increase</u>	<u>Ending</u>
	(In millions of Korean won)			
Taxable temporary differences				
Accrued interest	₩ (405,417)	₩ (309,036)	₩ (284,895)	₩ (381,276)
Allowances for loans losses	(57,578)	(40,796)	6,146	(10,636)
Deferred loan origination fees and costs	(312,168)	(311,853)	(399,884)	(400,199)
Advanced depreciation provisions	(460,918)	(460,918)	—	—
Gains (losses) from valuation on derivatives	(502,897)	(502,836)	(452,139)	(452,200)
Present value discount	(70,994)	(52,423)	(38,716)	(57,287)
Goodwill	(65,288)	—	—	(65,288)
Gains on revaluation	(1,142,809)	(9,529)	(9,301)	(1,142,581)
Investments in subsidiaries and others	(3,250,486)	(158)	(2,084,081)	(5,334,409)
Derivative linked securities	—	—	(1,846,433)	(1,846,433)
Others	(882,777)	(217,222)	(414,493)	(1,080,048)
Sub-total	<u>(7,151,332)</u>	<u>(1,904,771)</u>	<u>(5,523,796)</u>	<u>(10,770,357)</u>
Unrecognized deferred income tax liabilities:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(15,196)			(47,625)
Total	<u>₩(7,070,848)</u>			<u>₩(10,657,444)</u>
Tax rate (%) ⁽¹⁾	<u>24.2, 22.0</u>			<u>24.2</u>
Total deferred income tax liabilities from taxable temporary differences	<u>₩ (921,202)</u>			<u>₩ (1,332,306)</u>

⁽¹⁾ The corporate tax rate was changed due to the amendment of corporate tax law in 2011. Accordingly, the rate of 24.2% has been applied for the deferred tax assets and liabilities expected to be utilized in periods after December 31, 2011.

17. Other Assets

The details of other assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
(In millions of Korean won)			
Other financial assets			
Other receivables	₩ 3,238,762	₩2,021,249	₩2,470,405
Receivables from disposal of assets	200	200	—
Receivables in gold	637	—	107
Accrued income	1,135,696	1,155,197	1,253,034
Guarantee deposits	1,328,859	1,318,003	1,333,370
Domestic exchange settlement debits	639,646	1,709,096	1,403,284
Others	323,266	347,467	304,694
Allowances for loan losses	(384,624)	(364,530)	(353,905)
Present value discount	(778)	(455)	(1,084)
Sub-total	<u>6,281,664</u>	<u>6,186,227</u>	<u>6,409,905</u>
Other non-financial assets			
Other receivables	434	1,935	7,300
Prepaid expenses	196,262	333,360	307,742
Guarantee deposits	3,424	3,236	3,149
Insurance assets	39,386	72,097	127,368
Separate account assets	287,765	422,088	538,179
Others	189,511	82,063	93,215
Allowances on other asset	(30,387)	(24,210)	(8,339)
Sub-total	<u>686,395</u>	<u>890,569</u>	<u>1,068,614</u>
Total	<u>₩ 6,968,059</u>	<u>₩7,076,796</u>	<u>₩7,478,519</u>

The changes in allowances for loan losses on other assets for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010		
	Other financial assets	Other non-financial assets	Total
(In millions of Korean won)			
Beginning	₩ 384,624	₩ 30,387	₩ 415,011
Written-off	(124,956)	(2,525)	(127,481)
Provision (reversal)	103,407	(3,652)	99,755
Others	1,455	—	1,455
Ending	<u>₩ 364,530</u>	<u>₩ 24,210</u>	<u>₩ 388,740</u>
	For the Year Ended December 31, 2011		
	Other financial assets	Other non-financial assets	Total
(In millions of Korean won)			
Beginning	₩ 364,530	₩ 24,210	₩388,740
Written-off	(19,859)	(19,800)	(39,659)
Provision (reversal)	9,505	3,678	13,183
Others	(271)	251	(20)
Ending	<u>₩ 353,905</u>	<u>₩ 8,339</u>	<u>₩362,244</u>

18. Assets held for sale

The details of assets held for sale as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Acquisition cost ⁽¹⁾	Accumulated impairment	Carrying amount	Fair value less costs to sell
	(In millions of Korean won)			
Buildings	₩ 10,058	₩ (4,219)	₩ 5,839	₩ 5,878
Land	16,637	(2,316)	14,321	14,850
Total	₩ 26,695	₩ (6,535)	₩20,160	₩ 20,728

	As of December 31, 2010			
	Acquisition cost ⁽¹⁾	Accumulated impairment	Carrying amount	Fair value less costs to sell
	(In millions of Korean won)			
Buildings	₩ 5,653	₩ (2,251)	₩3,402	₩ 3,402
Land	7,353	(1,402)	5,951	5,951
Total	₩ 13,006	₩ (3,653)	₩9,353	₩ 9,353

	As of December 31, 2011			
	Acquisition cost ⁽¹⁾	Accumulated impairment	Carrying amount	Fair value less costs to sell
	(In millions of Korean won)			
Buildings	₩ 8,371	₩ (3,746)	₩4,625	₩ 4,625
Land	7,807	(2,501)	5,306	5,306
Total	₩ 16,178	₩ (6,247)	₩9,931	₩ 9,931

(1) Acquisition cost of buildings held for sale is net of accumulated depreciation.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2010 and 2011, are as follows:

For the Year Ended December 31, 2010					
Beginning	Provision	Reversal	Others	Ending	
(In millions of Korean won)					
₩ (6,535)	₩ (482)	₩ 274	₩ 3,090	₩ (3,653)	

For the Year Ended December 31, 2011					
Beginning	Provision	Reversal	Others	Ending	
(In millions of Korean won)					
₩ (3,653)	₩ (3,931)	₩ 312	₩ 1,025	₩ (6,247)	

As of December 31, 2011, assets held for sale consist of ten real estates of closed offices and one real estate acquired through execution of security right, which the management of the Group committed to plan to sell, but not yet sold by December 31, 2011. As of reporting date, two assets out of above assets held for sale are under negotiation for sale and the remaining nine assets are also actively marketed.

19. Financial liabilities at fair value through profit or loss

The details of financial liabilities at fair value through profit or loss as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
(In millions of Korean won)			
Financial liabilities held for trading			
Securities sold	₩ 1,347,668	₩1,279,869	₩ 522,112
Other	16,555	14,990	28,761
Sub-total	<u>1,364,223</u>	<u>1,294,859</u>	<u>550,873</u>
Financial liabilities designated at fair value through profit or loss			
Derivative linked securities	—	—	837,206
Sub-total	—	—	<u>837,206</u>
Total financial liabilities at fair value through profit or loss	<u>₩ 1,364,223</u>	<u>₩1,294,859</u>	<u>₩1,388,079</u>

The details of credit risk of financial liabilities designated at fair value through profit or loss as of December 31, 2011, are as follows:

	<u>As of December 31, 2011</u>	
	(In millions of Korean won)	
Derivative linked securities		
Equity-linked securities	₩	846,648
Adjustments attributable to the credit risk		(9,442)
Total	<u>₩</u>	<u>837,206</u>

Meanwhile, there were no financial liabilities designated at fair value through profit or loss as of January 1, 2010, or December 31, 2010.

20. Deposits

Deposits as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
(In millions of Korean won)			
Deposits	₩169,065,579	₩179,862,500	₩190,337,890
Deferred financing costs	(536)	(429)	(300)
Total	<u>₩169,065,043</u>	<u>₩179,862,071</u>	<u>₩190,337,590</u>

The details of deposits as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Demand deposits in Korean won			
Checking deposits	₩ 134,770	₩ 113,852	₩ 146,658
Household checking deposits	403,602	460,228	434,134
Special deposits	2,855,247	2,862,693	2,691,674
Ordinary deposits	17,906,264	19,740,236	20,581,481
Public fund deposits	158,275	125,094	85,895
Treasury deposits	4,187	5,869	7,539
General savings deposits	19,993,981	22,716,444	23,471,543
Corporate savings deposits	8,646,379	10,197,986	10,209,575
Nonresident's deposit in Korean won	69,082	59,481	128,630
Nonresident's free deposit in Korean won	39,777	25,709	15,672
Others	205,927	182,245	308,181
Sub-total	50,417,491	56,489,837	58,080,982
Demand deposits in foreign currencies			
Checking deposits	79,445	83,650	71,838
Ordinary deposits	1,360,546	1,379,023	1,661,358
Special deposits	16,466	1,073	1,145
Others	21,056	11,226	9,436
Sub-total	1,477,513	1,474,972	1,743,777
Total demand deposits	51,895,004	57,964,809	59,824,759
Time deposits in Korean won			
Time deposits	78,690,444	105,029,253	114,868,739
Installment savings deposits	5,411,923	5,625,204	5,454,573
Good-sum formation savings	396	367	338
Workers' savings for housing	2	2	2
Nonresident's deposit in Korean won	263,915	214,383	193,765
Long-term savings deposits for workers	2,304	2,035	1,862
Nonresident's free deposit in Korean won	101,002	119,578	85,875
Long-term housing savings deposits	3,789,456	3,758,140	3,309,833
Long-term savings for households	523	371	247
Preferential savings deposits for workers	2,535	998	489
Mutual installment deposits	1,789,963	1,941,767	1,273,806
Mutual installment for housing	1,900,618	1,485,336	1,173,404
Others	238	226	196
Sub-total	91,953,319	118,177,660	126,363,129
Losses (gains) on valuation of fair value hedged items (prior year portion)	(11,689)	—	—
Sub-total	91,941,630	118,177,660	126,363,129
Time deposits in foreign currencies			
Time deposits	2,142,133	1,372,689	2,604,603
Installment savings deposits	480	391	1,201
Others	5,076	23	23
Sub-total	2,147,689	1,373,103	2,605,827
Total time deposits	94,089,319	119,550,763	128,968,956
Certificates of deposits	23,081,256	2,346,928	1,544,175
Total deposits	₩169,065,579	₩179,862,500	₩190,337,890

21. Debts

The details of debts as of January 1, 2010, and December 31, 2010 and 2011, consist of:

	As of January 1,	As of December 31,	
	2010	2010	2011
(In millions of Korean won)			
Borrowings	₩ 9,800,638	₩10,086,081	₩14,091,973
Bonds sold under repurchase agreements and others	2,670,401	1,053,543	1,590,400
Call money	1,364,010	604,941	1,141,465
Deferred financing costs	(945)	(176)	—
Total	<u>₩13,834,104</u>	<u>₩11,744,389</u>	<u>₩16,823,838</u>

The details of borrowings as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	Lender	Annual interest rate (%)	As of January 1,	As of December 31,		
			2010	2010	2011	
(In millions of Korean won)						
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	1.50	₩ 1,343,725	₩ 930,653	₩ 650,616
	Borrowings from the government	KEMCO and others	0.00~5.00	674,272	676,223	690,750
	Borrowings from national housing fund	National Housing Fund	3.00	2,430	—	—
	Borrowings from banking institutions	Industrial Bank of Korea and others	2.64~3.00	86,327	67,520	405,033
	Borrowings from non-banking financial institutions	The Korea Development Bank	1.69~2.80	47,406	56,252	91,254
	Other borrowings	Small & Medium Business Corporation and others	0.50~6.09	1,945,338	2,189,046	3,538,983
	Sub Total			<u>4,099,498</u>	<u>3,919,694</u>	<u>5,376,636</u>
Borrowings in foreign currencies	Due to banks	JP Morgan Chase Bank N.A. and others	—	234,006	347,206	28,194
	Borrowings from banking institutions	Sumitomo Mitsui Banking Corp. and others	0.50~5.73	2,701,557	2,821,223	4,694,199
	Off-shore borrowings in foreign currencies	Centralbank Uzbekistan and others	0.62~3.43	1,313,154	1,447,651	1,019,279
	Other borrowings	JP Morgan Chase Bank N.A. and others	—	1,452,423	1,550,307	2,973,665
	Sub Total			<u>5,701,140</u>	<u>6,166,387</u>	<u>8,715,337</u>
Total			<u>₩ 9,800,638</u>	<u>₩10,086,081</u>	<u>₩14,091,973</u>	

The details of bonds sold under repurchase agreements and others as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	Lender	Annual interest rate (%)	As of January 1,	As of December 31,	
			2010	2010	2011
(In millions of Korean won)					
Bonds sold under repurchase agreements	Individuals, Groups, Corporations	2.40 ~ 4.64	₩ 2,605,563	₩ 977,957	₩1,511,875
Bills sold	Counter sale	1.97 ~ 3.78	64,838	75,586	78,525
Total			₩ 2,670,401	₩1,053,543	₩1,590,400

The details of call money as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	Lenders	Annual interest rate (%)	As of January 1,	As of December 31,	
			2010	2010	2011
(In millions of Korean won)					
Call money in Korean won	Woori Asset Management Co., Ltd. and others	2.76 ~ 3.35	₩ 217,100	₩130,500	₩ 314,200
Call money in foreign currencies	Centralbank Uzbekistan and others	0.15 ~ 4.48	1,146,910	474,441	827,265
Total			₩ 1,364,010	₩604,941	₩1,141,465

Call money and borrowings from financial institutions as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Bank of Korea	Other Banks	Others	Total
(In millions of Korean won)				
Call money	₩ —	₩1,203,910	₩160,100	₩1,364,010
Borrowings	1,343,725	5,716,713	282,112	7,342,550
Total	₩1,343,725	₩6,920,623	₩442,212	₩8,706,560

	As of December 31, 2010			
	Bank of Korea	Other Banks	Others	Total
(In millions of Korean won)				
Call money	₩ —	₩ 442,528	₩162,413	₩ 604,941
Borrowings	930,653	6,180,605	239,105	7,350,363
Total	₩ 930,653	₩6,623,133	₩401,518	₩7,955,304

	As of December 31, 2011			
	Bank of Korea	Other Banks	Others	Total
(In millions of Korean won)				
Call money	₩ —	₩ 932,410	₩ 209,055	₩ 1,141,465
Borrowings	650,616	9,064,282	1,216,359	10,931,257
Total	₩ 650,616	₩9,996,692	₩1,425,414	₩12,072,722

22. Debentures

The details of debentures as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	Annual interest rate (%)	As of January 1,	As of December 31,	
		2010	2010	2011
(In millions of Korean won)				
Debentures in Korean won				
Hybrid capital instrument	8.50	₩ 100,000	₩ 100,000	₩ 100,000
Structured debentures	2.00~8.62	3,903,238	3,684,341	3,424,238
Subordinated fixed rate debentures in Korean won	4.27~7.70	7,972,273	7,323,268	7,995,571
Fixed rate debentures in Korean won	3.20~7.95	21,807,646	13,273,928	10,791,612
Floating rate debentures in Korean won	3.57~5.16	283,258	833,258	803,258
Sub Total		34,066,415	25,214,795	23,114,679
Fair value adjustments on fair value hedged financial debentures in Korean won				
Fair value adjustments on valuation of fair value hedged items (current period portion)		—	57,045	15,964
Fair value adjustments on valuation of fair value hedged items (prior year portion)		(82,310)	(35,515)	42,494
Sub Total		(82,310)	21,530	58,458
Discount or premium on debentures in Korean won				
Discount on debentures		(29,816)	(17,273)	(52,290)
Sub Total		33,954,289	25,219,052	23,120,847
Debentures in foreign currencies				
Floating rate debentures	0.64~2.57	3,003,197	1,686,459	1,309,606
Fixed rate debentures	1.50~7.25	1,840,344	2,337,759	2,705,167
Sub Total		4,843,541	4,024,218	4,014,773
Fair value adjustments on fair value hedged debentures in foreign currencies				
Fair value adjustments on valuation of fair value hedged items (current period portion)		—	(27,816)	47,986
Fair value adjustments on valuation of fair value hedged items (prior year portion)		(106,270)	(83,832)	(90,778)
Sub Total		(106,270)	(111,648)	(42,792)
Discount or premium on debentures in foreign currencies				
Discount on debentures		(29,598)	(24,306)	(22,949)
Sub Total		4,707,673	3,888,264	3,949,032
Total		₩38,661,962	₩29,107,316	₩27,069,879

The changes in debentures based on face value for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010				
	Beginning	Issues	Repayments	Others	Ending
	(In millions of Korean won)				
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ —	₩ —	₩ —	₩ 100,000
Structured debentures	3,903,238	1,030,103	(1,249,000)	—	3,684,341
Subordinated fixed rate debentures in Korean won	7,972,273	500,000	(1,149,005)	—	7,323,268
Fixed rate debentures in Korean won	21,807,646	5,238,300	(13,772,018)	—	13,273,928
Floating rate debentures in Korean won	283,258	830,000	(280,000)	—	833,258
Sub Total	34,066,415	7,598,403	(16,450,023)	—	25,214,795
Debentures in foreign currencies					
Floating rate debentures	3,003,197	83,475	(1,350,042)	(50,171)	1,686,459
Fixed rates debentures	1,840,344	658,243	(181,933)	21,105	2,337,759
Sub Total	4,843,541	741,718	(1,531,975)	(29,066)	4,024,218
Total	₩38,909,956	₩8,340,121	₩(17,981,998)	₩(29,066)	₩29,239,013
	For the Year Ended December 31, 2011				
	Beginning	Issues	Repayments	Others	Ending
	(In millions of Korean won)				
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ —	₩ —	₩ —	₩ 100,000
Structured debentures	3,684,341	500,000	(760,103)	—	3,424,238
Subordinated fixed rate debentures in Korean won	7,323,268	800,000	(127,697)	—	7,995,571
Fixed rate debentures in Korean won	13,273,928	6,940,000	(9,422,316)	—	10,791,612
Floating rate debentures in Korean won	833,258	690,000	(720,000)	—	803,258
Sub Total	25,214,795	8,930,000	(11,030,116)	—	23,114,679
Debentures in foreign currencies					
Floating rate debentures	1,686,459	322,800	(789,143)	89,490	1,309,606
Fixed rate debentures	2,337,759	412,374	(33,217)	(11,749)	2,705,167
Sub Total	4,024,218	735,174	(822,360)	77,741	4,014,773
Total	₩29,239,013	₩9,665,174	₩(11,852,476)	₩ 77,741	₩27,129,452

23. Provisions

The details of provisions as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,		As of December 31,	
	2010		2010	2011
	(In millions of Korean won)			
Provisions for unused loan commitments	₩	289,037	₩	284,667
Provisions for acceptances and guarantees		92,508		414,254
Provisions for financial guarantee contracts		32,578		18,866
Provisions for asset retirement obligation		43,070		49,461
Other		118,961		252,822
Total	₩	576,154	₩	1,020,070
				₩ 259,427

Provisions for unused loan commitments as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Commitments outstanding	Provision	Ratio (%)
	(In millions of Korean won)		
Corporate loan commitments	₩27,029,379	₩114,296	0.42
Retail loan commitments	13,268,454	37,175	0.28
Credit line on credit cards	43,610,192	137,566	0.32
Total	₩83,908,025	₩289,037	0.34

	As of December 31, 2010		
	Commitments outstanding	Provision	Ratio (%)
	(In millions of Korean won)		
Corporate loan commitments	₩27,644,011	₩110,119	0.40
Retail loan commitments	14,149,393	41,399	0.29
Credit line on credit cards	44,776,141	133,149	0.30
Total	₩86,569,545	₩284,667	0.33

	As of December 31, 2011		
	Commitments outstanding	Provision	Ratio (%)
	(In millions of Korean won)		
Corporate loan commitments	₩36,365,468	₩102,301	0.28
Retail loan commitments	14,632,998	44,499	0.30
Credit line on credit cards	39,070,550	112,627	0.29
Total	₩90,069,016	₩259,427	0.29

Provisions for acceptances and guarantees as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Acceptances and guarantees	Provision	Ratio (%)
	(In millions of Korean won)		
Confirmed acceptances and guarantees in Korean won	₩ 1,636,561	₩19,892	1.22
Confirmed acceptances and guarantees in foreign currencies	5,221,895	38,943	0.75
Unconfirmed acceptances and guarantees	7,860,104	33,673	0.43
Total	<u>₩14,718,560</u>	<u>₩92,508</u>	<u>0.63</u>

	As of December 31, 2010		
	Acceptances and guarantees	Provision	Ratio (%)
	(In millions of Korean won)		
Confirmed acceptances and guarantees in Korean won	₩ 1,709,266	₩ 48,069	2.81
Confirmed acceptances and guarantees in foreign currencies	4,314,929	150,934	3.50
Unconfirmed acceptances and guarantees	6,452,397	215,251	3.34
Total	<u>₩12,476,592</u>	<u>₩414,254</u>	<u>3.32</u>

	As of December 31, 2011		
	Acceptances and guarantees	Provision	Ratio (%)
	(In millions of Korean won)		
Confirmed acceptances and guarantees in Korean won	₩ 1,605,167	₩ 39,318	2.45
Confirmed acceptances and guarantees in foreign currencies	4,242,061	119,548	2.82
Unconfirmed acceptances and guarantees	5,695,456	152,636	2.68
Total	<u>₩11,542,684</u>	<u>₩311,502</u>	<u>2.70</u>

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010		
	Provisions for acceptances and guarantees	Provisions for unused loan commitments	Total
	(In millions of Korean won)		
Beginning	₩ 92,508	₩ 289,037	₩381,545
Effects of changes in foreign exchange rate	(270)	(210)	(480)
Provision(reversal)	322,016	(4,160)	317,856
Ending	<u>₩ 414,254</u>	<u>₩ 284,667</u>	<u>₩698,921</u>

	For the Year Ended December 31, 2011		
	Provisions for acceptances and guarantees	Provisions for unused loan commitments	Total
	(In millions of Korean won)		
Beginning	₩ 414,254	₩ 284,667	₩ 698,921
Effects of changes in foreign exchange rate	2,130	132	2,262
Provision (reversal)	(104,882)	(25,372)	(130,254)
Ending	<u>₩ 311,502</u>	<u>₩ 259,427</u>	<u>₩ 570,929</u>

The changes in provisions for financial guarantee contracts for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Beginning	₩ 32,578	₩ 18,866
Provision (reversal)	(13,712)	(10,907)
Ending	<u>₩ 18,866</u>	<u>₩ 7,959</u>

The changes in provisions for asset retirement obligation for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Beginning	₩ 43,070	₩ 49,461
Provision	1,381	5,893
Reversal	(47)	(94)
Used	(1,505)	(1,845)
Unwinding of discount	2,616	2,719
Effects of changes in discount rate	3,946	3,925
Ending	<u>₩ 49,461</u>	<u>₩ 60,059</u>

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease period. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The details of other provisions as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Provisions for membership rewards program	₩ 1,225	₩ 12,437	₩ 13,495
Dormant accounts	10,155	9,773	11,292
Provisions for litigations	2,389	6,200	49,286
Others	105,192	224,412	84,719
Total	<u>₩ 118,961</u>	<u>₩ 252,822</u>	<u>₩ 158,792</u>

The changes in other provisions for the years ended December 31, 2010 and 2011, are as follows:

For the Year Ended December 31, 2010					
	Provisions for membership rewards program	Dormant accounts	Provisions for litigations	Others	Total
(In millions of Korean won)					
Beginning	₩ 1,225	₩10,155	₩ 2,389	₩105,192	₩118,961
Increase	22,621	6,838	3,857	19,621	52,937
Decrease	(11,409)	(7,220)	(46)	99,599	80,924
Ending	<u>₩ 12,437</u>	<u>₩ 9,773</u>	<u>₩ 6,200</u>	<u>₩224,412</u>	<u>₩252,822</u>

For the Year Ended December 31, 2011					
	Provisions for membership rewards program	Dormant accounts	Provisions for litigations	Others	Total
(In millions of Korean won)					
Beginning	₩ 12,437	₩ 9,773	₩ 6,200	₩ 224,412	₩ 252,822
Increase	16,759	10,377	69,479	5,081	101,696
Decrease	(15,701)	(8,858)	(26,393)	(144,774)	(195,726)
Ending	<u>₩ 13,495</u>	<u>₩11,292</u>	<u>₩ 49,286</u>	<u>₩ 84,719</u>	<u>₩ 158,792</u>

24. Other Liabilities

24.1 Defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The defined benefit liability recognized in the statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation methods.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through profit or loss.

The changes in the defined benefit obligation for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Present value of defined benefit obligation (beginning)	₩ 584,404	₩ 491,989
Current service cost	142,930	145,397
Interest cost	28,383	24,883
Actuarial gains(losses)	(24,906)	40,685
Exchange difference on foreign plans	35	29
Benefits paid	(255,795)	(17,885)
Past service cost ⁽¹⁾	—	45,538
Effect of business combination	915	—
Effects of curtailments	18,362	(827)
Effects of settlements	(2,339)	(925)
Present value of defined benefit obligation (ending)	<u>₩ 491,989</u>	<u>₩ 728,884</u>

(1) Other provisions amounting to ₩34,427 million as of December 31, 2010 are reclassified as defined benefit obligation.

The changes in the fair value of plan assets for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Fair value of plan assets (beginning)	₩ 417,017	₩ 366,526
Expected return on plan assets	19,181	15,382
Actuarial gains (losses)	(6,966)	982
Contributions	195,781	235,736
Benefits paid	(256,224)	(17,658)
Effect of business combination	76	—
Effects of settlements	(2,339)	(572)
Fair value of plan assets (ending)	<u>₩ 366,526</u>	<u>₩ 600,396</u>

The details of defined benefit liabilities as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Present value of defined benefit obligation	₩ 584,404	₩ 491,989	₩ 728,884
Fair value of plan assets	(417,017)	(366,526)	(600,396)
Defined benefit liability	<u>₩ 167,387</u>	<u>₩ 125,463</u>	<u>₩ 128,488</u>

The details of post-employment benefits recognized in profit and loss as employee compensation and benefits for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Current service cost	₩ 142,930	₩ 145,397
Interest cost	28,383	24,883
Expected return on plan assets	(19,181)	(15,382)
Actuarial losses (gains)	(17,940)	39,703
Past service cost	—	11,111
Effects of curtailments	18,362	(827)
Post-employment benefits ⁽¹⁾	<u>₩ 152,554</u>	<u>₩ 204,885</u>

⁽¹⁾ Post-employment benefits amounting to ₩1,211 million and ₩548 million for the years ended December 31, 2010 and 2011, respectively, are recognized as other operating expense in the statements of comprehensive income.

The actual return on plan assets is ₩12,215 million and ₩16,364 million for the years ended December 31, 2010 and 2011, respectively.

The details of plan assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Time deposits	₩ 417,017	₩366,526	₩600,396

Key actuarial assumptions used as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	Ratio (%)	
		2010	As of December 31,
		2010	2011
Discount rate	5.24 ~ 5.96	3.56 ~ 5.13	3.76 ~ 4.40
Expected return on plan assets	4.67 ~ 5.39	3.71 ~ 3.91	3.20 ~ 4.19
Future salary increase rate	0.00 ~ 10.00	0.00 ~ 10.00	0.00 ~ 8.25

Mortality assumptions are based on the 2009 Korea standard mortality rates table.

The present value of defined benefits obligation, fair value of plan assets and actuarial adjustments to each item as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Present value of defined benefits obligation	₩ 584,404	₩ 491,989	₩ 728,884
Fair value of plan assets	(417,017)	(366,526)	(600,396)
Total	<u>167,387</u>	<u>125,463</u>	<u>128,488</u>
Adjustments to defined benefits obligation	₩ —	₩ (24,906)	₩ 40,685
Adjustments to plan assets	—	6,966	(982)

The Group's best estimate of contributions expected to be paid to plan during the annual period beginning after the reporting period amounts to ₩103,958 million.

24.2 Other liabilities

The details of other liabilities, excluding defined benefits liabilities, as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	As of December 31,	
		2010	2011
(In millions of Korean won)			
Other financial liabilities			
Other payables	₩ 3,437,238	₩ 2,383,209	₩ 3,000,703
Prepaid card and debit card	17,580	18,263	20,151
Accrued expenses	3,968,641	3,874,272	4,219,075
Financial guarantee liabilities	10,030	5,267	7,217
Deposits for letter of guarantees and others	142,265	143,632	154,542
Domestic exchange settlement credits	391,571	189,041	133,568
Foreign exchanges settlement credits	68,430	84,296	88,480
Borrowings from other business account	46,809	3,011	11,827
Borrowings from Trust Accounts	1,658,208	1,834,715	1,918,766
Liability Incurred by Agency Relationship	344,668	381,896	197,537
Account for Agency Businesses	218,415	268,675	134,256
Others	100,020	88,450	75,983
Sub Total	<u>10,403,875</u>	<u>9,274,727</u>	<u>9,962,105</u>
Other non-financial liabilities			
Other payables	22,718	20,138	126,666
Unearned revenue	134,049	113,370	125,190
Accrued expenses	156,777	137,329	184,412
Deferred revenue on credit card points	140,219	124,949	106,132
Withholding Taxes	99,069	101,053	154,478
Insurance liabilities	2,046,694	2,858,176	3,530,354
Separate account liabilities	291,611	426,548	543,819
Others	121,613	344,659	353,013
Sub Total	<u>3,012,750</u>	<u>4,126,222</u>	<u>5,124,064</u>
Total	<u>₩13,416,625</u>	<u>₩13,400,949</u>	<u>₩15,086,169</u>

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Parent Company as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	Ordinary shares		
	As of January 1, 2010	As of December 31,	
		2010	2011
Number of shares authorized	1,000,000,000	1,000,000,000	1,000,000,000
Number of shares	386,351,693	386,351,693	386,351,693
Par Value per share	₩ 5,000	₩ 5,000	₩ 5,000
Capital ⁽¹⁾	₩ 1,931,758	₩ 1,931,758	₩ 1,931,758

(1) In millions of Korean won.

25.2 Capital surplus

The details of capital surplus as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Capital stock in excess of par value	₩12,226,596	₩12,226,596	₩12,226,596
Loss on sales of treasury shares	(420,484)	(420,484)	(568,544)
Other capital surplus	4,184,506	4,184,166	4,183,772
Total	<u>₩15,990,618</u>	<u>₩15,990,278</u>	<u>₩15,841,824</u>

The changes in the loss on sales of treasury shares for the years ended December 31, 2010 and 2011, are as follows:

		<u>For the Year Ended December 31, 2010</u>				
<u>Beginning</u>		<u>Changes</u>	<u>Tax effect</u>		<u>Ending</u>	
		(In millions of Korean won)				
₩	(420,484)	₩	—	₩	—	₩
						(420,484)
		<u>For the Year Ended December 31, 2011</u>				
<u>Beginning</u>		<u>Changes</u>	<u>Tax effect</u>		<u>Ending</u>	
		(In millions of Korean won)				
₩	(420,484)	₩	(195,285)	₩	47,225	₩
						(568,544)

25.3 Treasury shares

The changes in treasury shares for the years ended December 31, 2010 and 2011, are as follows:

		<u>For the Year Ended December 31, 2010</u>				
	<u>Beginning</u>	<u>Purchase</u>	<u>Cancellation</u>	<u>Sales</u>	<u>Ending</u>	
		(In millions of Korean won)				
Number of shares	43,322,704	—	—	—	43,322,704	
Carrying amount	₩(2,476,809)	₩	—	₩	—	₩(2,476,809)
		<u>For the Year Ended December 31, 2011</u>				
	<u>Beginning</u>	<u>Purchase</u>	<u>Cancellation</u>	<u>Sales</u>	<u>Ending</u>	
		(In millions of Korean won)				
Number of shares	43,322,704	—	—	(43,322,704)	—	
Carrying amount	₩(2,476,809)	₩	—	₩	2,476,809	₩

25.4 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u> <u>2010</u>	<u>As of December 31,</u> <u>2010</u> <u>2011</u>	
	(In millions of Korean won)		
Change in value of available-for-sale financial assets	₩ 355,312	₩443,389	₩200,275
Change in value of held-to-maturity financial assets	(2,614)	(2,098)	(1,652)
Shares of other comprehensive income of associates and joint ventures	(1,757)	(3,762)	(4,195)
Cash flow hedges	—	—	(1,321)
Currency translation differences	—	(6,957)	(1,465)
Total	<u>₩ 350,941</u>	<u>₩430,572</u>	<u>₩191,642</u>

25.5 Retained earnings

The details of retained earnings as of January 1, 2010, and December 31, 2010 and 2011, consist of:

	<u>As of January 1,</u> <u>2010</u>	<u>As of December 31,</u> <u>2010</u> <u>2011</u>	
	(In millions of Korean won)		
Legal reserves	₩ 61,200	₩ 115,182	₩ 124,014
Voluntary reserves	568,000	982,000	982,000
Unappropriated retained earnings	1,923,985	1,523,706	3,846,737
Total	<u>₩ 2,553,185</u>	<u>₩2,620,888</u>	<u>₩4,952,751</u>

With respect to the allocation of net profit earned in a fiscal term, the Parent Company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its capital stock in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit.

In addition, as of December 31, 2011, Kookmin Bank's total balance of accumulated restricted retained earnings in accordance with the Banking Act of Korea and other regulations is ₩ 1,575,680 million.

Regulatory Reserve for Credit Losses

Measurement and disclosure of Regulatory Reserve for Credit Losses are required in accordance with Article 26 through 28 of the Supervisory Regulations on Financial Holding Companies in Korea which have been effective since November 18, 2010. The amount to be appropriated as the reserve is ₩1,816,074 million for the year ended December 31, 2011 which is not available for the payment of cash dividends.

26. Net Interest Income

The details of interest income and interest expense for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
(In millions of Korean won)		
Interest income		
Due from financial institutions	₩ 38,029	₩ 74,663
Loans	11,512,207	12,412,206
Financial investments		
Available-for-sale financial assets	766,252	775,783
Held-to-maturity financial assets	735,448	693,605
Sub Total	<u>13,051,936</u>	<u>13,956,257</u>
Interest expenses		
Deposits	4,708,531	4,944,615
Debts	306,490	398,802
Debentures	1,863,111	1,508,328
Sub Total	<u>6,878,132</u>	<u>6,851,745</u>
Net interest income	<u>₩ 6,173,804</u>	<u>₩ 7,104,512</u>

Interest income recognized on impaired loans and financial investments amounts to ₩ 121,221 million (2010: ₩ 100,942 million) and ₩ 200 million (2010: ₩ 200 million), respectively, for the years ended December 31, 2010 and 2011.

27. Net Fee and Commission income

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Fee and commission income		
Banking activity fees	₩ 183,862	₩ 188,652
Lending activity fees	79,734	88,521
Credit card related fees and commissions	1,043,768	1,142,306
Debit card related fees and commissions	166,680	192,686
Agent activity fees	136,034	238,216
Trust and other fiduciary fees	149,450	165,772
Fund management related fees	64,116	75,699
Guarantee fees	38,752	34,181
Foreign currency related fees	109,646	114,722
Commissions from transfer agent services	279,081	211,776
Other business account commission on consignment	43,979	173,893
Securities brokerage fees	42,964	57,435
Other	143,385	145,895
Sub Total	2,481,451	2,829,754
Fee and commission expense		
Trading activity related fees	6,310	3,498
Lending activity fees	4,110	2,743
Credit card related fees and commissions	541,125	838,843
Outsourcing related fees	56,027	61,551
Foreign currency related fees	17,670	18,003
Management fees of written-off loans	8,680	9,775
Other	142,815	100,591
Sub Total	776,737	1,035,004
Net fee and commission income	₩ 1,704,714	₩ 1,794,750

The above amounts include fee and commission income of ₩ 2,481,451 million and ₩ 2,829,754 million from financial assets, and fee and commission expense of ₩ 770,427 million and ₩ 1,031,506 million from financial liabilities for the years ended December 31, 2010 and 2011, respectively, that are not at fair value through profit or loss.

28. Net gain or loss from financial assets/liabilities at fair value through profit or loss

28.1 Net gain or loss from financial instruments held for trading

Net gain or loss from financial instruments held for trading includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Financial assets held for trading		
Debt securities	₩ 319,648	₩ 207,564
Equity securities	41,504	(26,226)
Sub Total	<u>361,152</u>	<u>181,338</u>
Derivatives held for trading		
Interest rate	(116,208)	(40,243)
Currency	707,860	886,265
Stock or stock index	(24,249)	59,512
Credit	2,044	259
Commodity	(61)	183
Other	978	515
Sub Total	<u>570,364</u>	<u>906,491</u>
Financial liabilities held for trading	(117,120)	(59,303)
Other financial instruments	(75)	231
Total	<u>₩ 814,321</u>	<u>₩ 1,028,757</u>

28.2 Net gain or loss from financial instruments designated at fair value through profit or loss

Net gain or loss from financial instruments designated at fair value through profit or loss includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
	(In millions of Korean won)	
Financial assets designated at fair value through profit or loss	₩ 487	₩ (50,853)
Financial liabilities designated at fair value through profit or loss	—	57,963
Total	<u>₩ 487</u>	<u>₩ 7,110</u>

29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
(In millions of Korean won)		
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 592	₩ 118
Gains on sale of available-for-sale financial assets	178,941	551,506
Sub Total	179,533	551,624
Revenue related to held-to-maturity financial assets		
Reversal of impairment on held-to-maturity financial assets	4	117
Sub Total	4	117
Gains on foreign exchange transactions	1,980,593	1,562,633
Income related to insurance	1,064,042	1,001,628
Dividend income	101,795	94,391
Others	446,937	473,801
Sub Total	3,772,904	3,684,194
Other operating expenses		
Expense related to available-for-sale financial assets		
Loss on redemption of available-for-sale financial assets	46	22
Loss on sale of available-for-sale financial assets	18,233	19,038
Impairment on available-for-sale financial assets	48,184	51,072
Sub Total	66,463	70,132
Expense related to held-to-maturity financial assets		
Impairment on held-to-maturity financial assets	523	150
Sub Total	523	150
Loss on foreign exchanges transactions	2,381,297	2,208,390
Expense related to insurance	1,091,665	1,078,808
Others	1,300,299	1,418,723
Sub Total	4,840,247	4,776,203
Net other operating income (expenses)	₩(1,067,343)	₩(1,092,009)

30. Employee Benefits

30.1 The details of employee benefits

The details of employee benefits for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31,	
	2010	2011
(In millions of Korean won)		
Salaries and other short-term employee benefits	₩ 1,603,553	₩ 1,657,823
Post-employment benefits-defined benefit plans	151,343	204,337
Post-employment benefits-defined contribution plans	2,767	4,005
Termination benefits	654,039	12,308
Share-based payments ⁽¹⁾	(4,850)	(7,609)
Total	₩ 2,406,852	₩ 1,870,864

⁽¹⁾ Reversal of share-based payments was due to the decrease in share price.

30.2 Share-based payments

30.2.1 Share options

The details of the share options as of December 31, 2011, are as follows:

	<u>Grant date</u>	<u>Exercise period</u>	<u>Granted shares⁽¹⁾</u>	<u>Vesting conditions</u>
		(Years)	(In number of shares)	
Series 12	2004.02.09	8	60,000	Service period: 1 year ⁽⁴⁾
Series 13-1	2004.03.23	8	20,000	Service period: 1 year ⁽³⁾
Series 15-1	2005.03.18	8	165,000	Service period: 3 years ⁽³⁾
Series 15-2	2005.03.18	8	690,000	Service period: 3 years ⁽⁴⁾
Series 17	2005.07.22	8	30,000	Service period: 3 years ⁽⁴⁾
Series 18	2005.08.23	8	15,000	Service period: 3 years ⁽⁴⁾
Series 19	2006.03.24	8	930,000	Service period: 1, 2, 3 years ⁽²⁾
Series 20	2006.04.28	8	30,000	Service period: 3 years ⁽²⁾
Series 21	2006.10.27	8	20,000	Service period: 2 years ⁽²⁾
Series 22	2007.02.08	8	855,000	Service period: 1, 3 years ⁽²⁾
Series 23	2007.03.23	8	30,000	Service period: 3 years ⁽²⁾
Total			<u>2,845,000</u>	

- (1) Granted shares represent the total number of shares initially granted to directors and employees whose options have not been exercised at the end of the reporting period.
- (2) The exercise price is indexed to the sum of the major competitors' total market capitalization.
- (3) The exercise price is indexed to the banking industry index.
- (4) The exercisability and number of shares are linked to certain performance conditions for the service period.

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010							
	Number of granted shares				Number of exercisable share	Exercise price per share	Remaining contractual life (Years)	
	Beginning	Exercised	Expired	Ending				
	(In Korean won, except shares)							
Series 8-1	24,942	—	24,942	—	—	₩ —	—	
Series 8-2	191,831	5,000	186,831	—	—	—	—	
Series 9	23,899	—	23,899	—	—	—	—	
Series 10-1	40,063	—	—	40,063	40,063	47,360	0.22	
Series 10-2	67,993	16,690	—	51,303	51,303	35,500	0.22	
Series 11	5,091	—	—	5,091	5,091	40,500	0.65	
Series 12	54,250	—	—	54,250	54,250	46,100	1.11	
Series 13-1	20,000	—	—	20,000	20,000	48,650	1.23	
Series 14	610,000	—	610,000	—	—	—	—	
Series 15-1	125,362	—	—	125,362	125,362	54,656	2.21	
Series 15-2	480,714	—	29,786	450,928	450,928	46,800	2.21	
Series 16	8,827	—	—	8,827	8,827	45,700	2.32	
Series 17	29,441	—	—	29,441	29,441	49,200	2.56	
Series 18	7,212	—	—	7,212	7,212	53,000	2.65	
Series 19	751,651	—	—	751,651	751,651	77,063	3.23	
Series 20	25,613	—	—	25,613	25,613	81,900	3.33	
Series 21	18,987	—	—	18,987	18,987	76,600	3.82	
Series 22	696,674	—	39,176	657,498	657,498	77,100	4.11	
Series 23	15,246	—	—	15,246	15,246	84,500	4.23	
Series Kookmin Credit								
Card -1	22,146	—	—	22,146	22,146	71,538	0.22	
Series Kookmin Credit								
Card -2	9,990	—	—	9,990	9,990	129,100	0.24	
Total	<u>3,229,932</u>	<u>21,690</u>	<u>914,634</u>	<u>2,293,608</u>	<u>2,293,608</u>			
Weighted average exercise price	₩ 63,028	₩13,163	₩ 18,060	₩ 67,108	₩ 67,108			

The weighted-average share price for share options exercised during the year ended December 31, 2010, was ₩ 53,878.

For the Year Ended December 31, 2011

	Number of granted shares				Number of exercisable share	Exercise price per share	Remaining contractual life (Years)
	Beginning	Exercised	Expired	Ending			
	(In Korean won, except shares)						
Series 10-1	40,063	23,385	16,678	—	—	₩ —	—
Series 10-2	51,303	51,303	—	—	—	—	—
Series 11	5,091	5,091	—	—	—	—	—
Series 12	54,250	—	—	54,250	54,250	46,100	0.11
Series 13-1	20,000	—	—	20,000	20,000	48,650	0.23
Series 15-1	125,362	—	—	125,362	125,362	54,656	1.21
Series 15-2	450,928	10,000	—	440,928	440,928	46,800	1.21
Series 16	8,827	8,827	—	—	—	—	—
Series 17	29,441	—	—	29,441	29,441	49,200	1.56
Series 18	7,212	—	—	7,212	7,212	53,000	1.65
Series 19	751,651	—	—	751,651	751,651	77,063	2.23
Series 20	25,613	—	—	25,613	25,613	81,900	2.33
Series 21	18,987	—	—	18,987	18,987	76,600	2.82
Series 22	657,498	—	—	657,498	657,498	77,100	3.11
Series 23	15,246	—	—	15,246	15,246	84,500	3.23
Series Kookmin Credit							
Card -1	22,146	—	22,146	—	—	—	—
Series Kookmin Credit							
Card -2	9,990	—	9,990	—	—	—	—
Total	<u>2,293,608</u>	<u>98,606</u>	<u>48,814</u>	<u>2,146,188</u>	<u>2,146,188</u>		
Weighted average exercise price	₩ 67,108	₩40,630	₩75,058	₩ 68,144	₩ 68,144		

The weighted-average share price at the date of exercise for share options exercised during the year ended December 31, 2011, is ₩ 57,960.

The fair value of each option granted is estimated using a Black-Scholes option pricing model based on the assumptions in the table below:

	<u>Share price</u>	<u>Weighted average exercise price</u>	<u>Expected volatility (%)</u>	<u>Option's expected life (Years)</u>	<u>Expected dividends</u>	<u>Risk free interest rate (%)</u>	<u>Fair value</u>
	(In Korean won)						
Series 12 (Directors)	₩ 37,500	₩46,100	20.22	0.05	₩ 4	3.40	₩ 1
Series 12 (Employees)	37,500	46,100	20.22	0.05	4	3.40	1
Series 13-1 (Directors)	37,500	48,650	38.54	0.11	8	3.40	51
Series 15-1 (Directors)	37,500	54,656	47.50	0.61	44	3.40	1,564
Series 15-2 (Directors)	37,500	46,800	47.50	0.61	44	3.40	2,794
Series 15-2 (Employees)	37,500	46,800	47.50	0.61	44	3.40	2,794
Series 17 (Directors)	37,500	49,200	42.94	0.78	57	3.40	2,467
Series 18 (Employees)	37,500	53,000	42.92	0.21	16	3.40	151
Series 19 (Directors)	37,500	76,726	38.64	1.12	81	3.40	424
Series 19 (Employees)	37,500	77,390	42.46	0.79	58	3.40	256
Series 20 (Employees)	37,500	81,900	40.71	0.89	65	3.40	194
Series 21 (Employees)	37,500	76,600	35.85	1.39	100	3.39	523
Series 22 (Directors)	37,500	77,100	52.02	0.44	33	3.40	135
Series 22 (Employees)	37,500	77,100	35.01	1.67	120	3.38	719
Series 23 (Non-executive directors)	37,500	84,500	48.62	0.56	41	3.40	107

The option's expected life is separately estimated for employees and directors using actual historical behavior and projected future behavior to reflect the effects of expected early exercise. Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option. To reflect the changes in exercise price which is indexed to the sum of the major competitors' total market capitalization, cross volatility is used in calculating the expected volatility.

30.2.2 Share Grants

The Group changed the scheme of share based payment from share option to share grant in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grant as of December 31, 2011, are as follows:

Share grants	Grant date	Number of granted shares (In number of shares)	Vesting conditions
(KB Financial Group Inc.)			
Series 1	2008.09.29	22,557	Services fulfillment, Achievements of targets on the basis of market and non-market performance ⁽²⁾
Series 2	2009.03.27	3,090	Services fulfillment ⁽³⁾
Series 3	2010.01.01	32,256	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(4),(11)}
Series 4	2010.07.13	218,944	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(5),(11)}
Series 5	2010.12.23	13,260	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(6),(11)}
Series 6	2011.08.10	8,183	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(6),(11)}
Sub Total		298,290	
(Kookmin Bank)			
Series 13	2008.10.18	7,950	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(10),(11)}
Series 17	2009.10.12	5,300	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 19	2010.01.01	9,980	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11),(12)}
Series 20-1	2010.01.08	24,746	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11),(12)}
Series 20-2	2010.01.08	105,714	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11),(12)}
Series 23	2010.07.29	73,650	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(7),(11)}
Series 24	2010.08.03	57,072	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11),(12)}
Series 25	2010.08.12	18,472	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(7),(11)}
Series 27	2010.09.20	8,092	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}

<u>Share grants</u>	<u>Grant date</u>	<u>Number of granted shares</u> (In number of shares)	<u>Vesting conditions</u>
Series 28	2010.12.21	68,564	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 29	2010.12.23	10,764	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 30	2010.12.29	58,168	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 31	2011.01.03	16,306	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 32	2011.03.24	7,986	Services fulfillment, Achievements of targets on the basis of non-market performance ^{(9),(11)}
Series 33	2011.07.07	5,736	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 34	2011.08.10	10,242	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 35	2011.10.12	8,346	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(8),(11)}
Series 36	2011.10.18	8,106	Services fulfillment, Achievements of targets on the basis of market and non-market performance ^{(11),(13)}
Grant deferred in 2010	—	15,496	Satisfied
Grant deferred in 2011	—	3,589	Satisfied
Sub Total		<u>524,279</u>	
(Other subsidiaries)			
Share granted in 2010		33,817	Services fulfillment, Achievements of targets on the basis of market and non-market performance ⁽¹⁴⁾
Share granted in 2011		38,931	Services fulfillment, Achievements of targets on the basis of market and non-market performance ⁽¹⁴⁾
Sub Total		<u>72,748</u>	
Total		<u><u>895,317</u></u>	

(1) Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

(2) The vesting condition is to fulfill of the remaining contracted service period. The number of granted shares to be compensated is determined based on the fulfillment of service requirements. The 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted KPIs, the targeted financial results of the Group and the targeted relative TSR, respectively.

(3) The number of granted shares to be compensated is determined based on fulfillment of service requirements.

- (4) The 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of targeted KPIs, targeted financial results of the Group and targeted relative TSR, respectively. However, 50% of certain granted shares will be compensated based on the accomplishment of targeted KPIs and the remaining 50% of those shares will be compensated based on the accomplishment of targeted relative TSR.
- (5) The 37.5%, 37.5% and 25% of the number of certain granted shares to be compensated are determined based on the accomplishment of targeted relative TSR, targeted relative EPS ratio and qualitative indicators, respectively. The 30%, 30% and 40% of the number of other granted shares to be compensated are determined based on the accomplishment of targeted KPIs, targeted financial results of the Group and targeted relative TSR, respectively. The 40%, 40% and 20% of the number of the remaining granted shares to be compensated are determined based on the accomplishment of the targeted relative EPS ratio, the targeted relative TSR and qualitative indicators, respectively.
- (6) The 40%, 30% and 30% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted KPIs and the targeted financial results of the Group, respectively.
- (7) The 40%, 40% and 20% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted relative EPS ratio and qualitative indicators, such as a trend of ROA of last two years, respectively.
- (8) The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPIs, the targeted financial results of the Group and the targeted relative TSR, respectively.
- (9) The number of granted shares to be compensated is not linked to performance, but fixed.
- (10) The number of granted shares to be compensated was changed based on a new contract made for the year ended December 31, 2010, after cancellation of the previous contract.
- (11) Certain portion of the granted shares is compensated over a maximum period of three years.
- (12) Fair value of compensation per granted share is confirmed.
- (13) Half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other is determined by the targeted KPIs.
- (14) The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPIs, MOU of the Group and the targeted relative TSR, respectively. The 60% and 40% of the number of certain granted shares to be compensated are determined based on MOU of the Group and the targeted relative TSR, respectively.

The details of share grants linked to short-term performance as of December 31, 2011, are as follows:

	<u>Grant date</u>	<u>Number of vested shares⁽¹⁾</u>	<u>Vesting conditions</u>
(KB Financial Group Inc.)			
Share granted in 2010	2010.01.01	9,218	Satisfied
Share granted in 2011	2011.01.01	21,187	Proportion to service period
(Kookmin Bank)			
Share granted in 2010	2010.01.01	82,415	Satisfied
Share granted in 2011	2011.01.01	165,343	Proportion to service period

(1) The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value are as follows:

	Expected exercise period	Risk free rate	Fair value (Market performance condition)	Fair value (Non-market performance condition)
	(Years)	(%)	(In Korean won)	
Linked to long term performance				
(KB Financial Group Inc.)				
Series 1-2	—	3.40	₩ —	₩ 37,452
Series 1-4	0.23	3.40	—	36,214
Series 2-3	0.24	3.40	—	36,207
Series 3-1	0.00~2.00	3.40	57,407	37,452~41,104
Series 3-2	0.00~3.00	3.40	—	37,452~42,634
Series 3-3	0.00~2.00	3.40	57,407	37,452~41,104
Series 4-1	1.53~5.01	3.38	14,747	42,634~45,738
Series 4-2	1.53~5.01	3.38	15,252	42,634~45,738
Series 4-3	1.00~4.00	3.40	8,349	36,211~44,159
Series 4-4	1.00~4.00	3.40	8,221	36,211~44,159
Series 4-5	1.00~4.00	3.40	4,107	36,211~44,159
Series 5-1	1.00~4.00	3.40	5,286	36,211~44,159
Series 6-1	2.00~5.01	3.37	19,421	36,109~45,738
(Kookmin Bank)				
Series 13	1.00~3.00	3.40	36,339	36,339~42,634
Series 17	1.00~3.00	3.40	36,343	36,343~42,634
Series 19	—	3.40	—	36,291
Series 20-1	0.02~4.00	3.40	8,718	36,916~44,159
Series 20-2	0.02~4.00	3.40	8,718	36,917~44,159
Series 23	1.53~4.53	3.38	21,644	36,110~42,520
Series 24	0.59~4.00	3.40	9,086	36,222~42,634
Series 25	1.53~4.53	3.38	21,644	36,110~42,520
Series 27	0.72~4.00	3.40	5,225	36,169~42,634
Series 28	1.00~4.00	3.40	4,609	36,211~42,634
Series 29	1.00~4.00	3.40	5,286	36,211~42,634
Series 30	1.00~4.00	3.40	5,606	36,211~42,634
Series 31	1.00~4.00	3.40	5,623	36,211~42,634
Series 32	2.23~5.17	3.36	—	36,302~42,729
Series 33	1.50~4.17	3.39	15,878	36,283~42,634
Series 34	1.61~4.17	3.38	18,635	36,280~42,634
Series 35	2.00~4.17	3.37	21,198	36,109~42,634
Series 36	2.00~4.17	3.37	21,649	36,109~42,634
Grant deferred in 2010	0.25~3.25	3.38	—	37,060~42,634
Grant deferred in 2011	0.25~3.25	3.38	—	36,479~42,634
(Other subsidiaries)				
Share granted in 2010	1.00~2.17	3.36~3.40	607~16,958	36,132~36,240
Share granted in 2011	1.00~2.35	3.36~3.40	607~18,772	36,058~36,240
Linked to short-term performance				
(KB Financial Group Inc.)				
Share granted in 2010	0.00~2.00	3.49	—	40,580~44,631
Share granted in 2011	1.00~3.00	3.49	—	40,580~46,184
(Kookmin Bank)				
Share granted in 2010	0.59~2.00	3.38	—	37,060~41,104
Share granted in 2011	0.23~3.00	3.38	—	36,479~42,634

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price of December 31, 2011, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate. The Group used the historical data of Kookmin Bank for the period before the Parent Company was incorporated.

As of January 1, 2010, and December 31, 2010 and 2011, the accrued expenses related to share-based payments including share options and share grants amounted to ₩ 47,896 million, ₩ 38,757 million and ₩ 27,236 million, respectively, and the compensation costs from share options and share grants amounting to ₩ 4,850 million were reversed for the year ended December 31, 2010, and compensation costs amounting to ₩ 7,609 million were reversed for the year ended December 31, 2011. There is no intrinsic value of the vested share options (January 1, 2010: ₩ 17,571 million, December 31, 2010: ₩ 8,615 million).

31. Other general and administrative expenses

The details of other general and administrative expenses for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Welfare expense	₩ 569,264	₩ 558,965
Rental expense	248,715	255,867
Tax and dues	141,164	145,555
Communication	49,462	73,555
Electricity and utilities	23,169	23,535
Publication	22,326	23,308
Repairs and maintenance	16,070	15,576
Vehicle	40,710	40,882
Travel	5,000	5,405
Training	20,475	25,506
Service fees	117,002	110,814
Others	358,728	439,482
Total	<u>₩ 1,612,085</u>	<u>₩ 1,718,451</u>

32. Tax expense

Income tax expense for the years ended December 31, 2010 and 2011, consists of:

	For the Year Ended December 31,	
	2010	2011
(In millions of Korean won)		
Tax payable		
Current tax expense	₩ 233,867	₩ 816,051
Adjustments recognized in the period for current tax of prior years	(172,291)	23,479
Sub Total	<u>61,576</u>	<u>839,530</u>
Changes in deferred income tax assets (liabilities)	<u>(97,827)</u>	<u>(100,836)</u>
Income tax recognized directly in equity		
Exchange differences on translating foreign operations	(384)	(11)
Change in value of available-for-sale financial assets	(33,618)	46,303
Change in value of held-to-maturity financial assets	(287)	(249)
Share of other comprehensive income of associates and joint ventures	(1)	31
Cash flow hedges	—	241
Loss on sales of treasury shares	—	47,225
Sub Total	<u>(34,290)</u>	<u>93,540</u>
Tax expense (income)	<u>₩ (70,541)</u>	<u>₩ 832,234</u>

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2010 and 2011, follows:

	Proportion (%)	For the Year Ended December 31,	
		2010	2011
(In millions of Korean won)			
Net profit before income tax		₩ 149,368	₩ 3,260,806
Tax at the applicable tax rate ⁽¹⁾	24.20	₩ 36,121	₩ 789,089
Non-taxable income	(0.44)	(3,681)	(14,325)
Non-deductible expense	0.50	9,371	16,220
Tax credit and tax exemption	(0.07)	(5,959)	(2,198)
Temporary difference for which no deferred tax is recognized	(0.08)	61,417	(2,567)
Deferred tax relating to changes in recognition and measurement	(0.26)	(9,703)	(8,459)
Adjustments recognized in the period for the current tax of prior years	0.72	(172,291)	23,479
Income tax expense of overseas branch	0.56	13,888	18,308
Effects from change in tax rate	0.50	(1,235)	16,436
Others	(0.11)	1,531	(3,749)
Tax expense (income)	<u>25.52</u>	<u>₩ (70,541)</u>	<u>₩ 832,234</u>

⁽¹⁾ Applicable income tax rate for ₩ 200 million and below is 11%, and for over ₩200 million is 24.2%, which is composed of corporate tax and local income tax.

The details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Tax payables (receivables) before offsetting	Offsetting	Tax payables (receivables) after offsetting
	(In millions of Korean won)		
Income tax refund receivables	₩ (169,469)	₩ 169,166	₩ (303)
Income tax payables	268,918	(169,166)	99,752
	As of December 31, 2010		
	Tax payables (receivables) before offsetting	Offsetting	Tax payables (receivables) after offsetting
	(In millions of Korean won)		
Income tax refund receivables	₩ (320,417)	₩ 186,016	₩ (134,401)
Income tax payables	215,657	(186,016)	29,641
	As of December 31, 2011		
	Tax payables (receivables) before offsetting	Offsetting	Tax payables (receivables) after offsetting
	(In millions of Korean won)		
Income tax refund receivables	₩ (228,579)	₩ 216,981	₩ (11,598)
Income tax payables	805,806	(216,981)	588,825

33. Dividends

The dividends paid to the shareholders of the Parent Company in 2010 and 2011 were ₩78,897 million (₩230 per share) and ₩41,163 million (₩120 per share), respectively. The dividend to the shareholders of the Parent Company in respect of the year ended December 31, 2011, of ₩ 720 per share, amounting to total dividends of ₩ 278,173 million, is to be proposed at the annual general meeting on March 23, 2012. The Group's consolidated financial statements as of December 31, 2011, do not reflect this dividend payable.

34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2010 and 2011, are as follows:

	For the Year Ended December 31, 2010				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
	(In millions of Korean won)				
Exchange differences on translating foreign operations	₩ —	₩ (6,573)	₩ —	₩ (384)	₩ (6,957)
Change in value of available-for-sale financial assets	355,312	85,292	36,403	(33,618)	443,389
Change in value of held-to-maturity financial assets	(2,614)	807	(4)	(287)	(2,098)
Shares of other comprehensive income of associates and joint ventures	(1,757)	(2,004)	—	(1)	(3,762)
Total	₩350,941	₩ 77,522	₩ 36,399	₩(34,290)	₩430,572

For the Year Ended December 31, 2011					
Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending	
(In millions of Korean won)					
Exchange differences on translating foreign operations	₩ (6,957)	₩ 5,503	₩ —	₩ (11)	₩ (1,465)
Change in value of available-for-sale financial assets	443,389	(37,308)	(252,109)	46,303	200,275
Change in value of held-to-maturity financial assets	(2,098)	699	(4)	(249)	(1,652)
Shares of other comprehensive income of associates and joint ventures	(3,762)	(464)	—	31	(4,195)
Cash flow hedges	—	21,631	(23,193)	241	(1,321)
Total	<u>₩430,572</u>	<u>₩ (9,939)</u>	<u>₩ (275,306)</u>	<u>₩ 46,315</u>	<u>₩191,642</u>

35. Earnings per share

35.1 Basic earnings per share

Basic earnings per share is calculated by dividing profit and loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, excluding the treasury shares (Note 25), during the years ended December 31, 2010 and 2011.

Weighted average number of ordinary shares outstanding:

For the Year Ended December 31, 2010			
	Number of shares (a)	Days outstanding (b)	Total outstanding shares [(a) x (b)]
(In number of shares)			
Beginning (A)	386,351,693	365	141,018,367,945
Treasury shares (B)	43,322,704	365	15,812,786,960
Total outstanding shares [(C)=(A)-(B)]			<u>125,205,580,985</u>
Weighted average number of ordinary shares outstanding [(D) =(C)/365]			343,028,989
For the Year Ended December 31, 2011			
	Number of shares (a)	Days outstanding (b)	Total outstanding shares [(a) x (b)]
(In number of shares)			
Beginning (A)	386,351,693	365	141,018,367,945
Treasury shares (B)	43,322,704	13	563,195,152
	40,984,474	28	1,147,565,272
	37,463,510	42	1,573,467,420
	34,966,962	105	3,671,531,010
			<u>6,955,758,854</u>
Total outstanding shares [(C)=(A)-(B)]			<u>134,062,609,091</u>
Weighted average number of ordinary shares outstanding [(D) =(C)/365]			367,294,819

Basic earnings per share:

	For the Year Ended December 31,	
	2010	2011
	(in Korean won and in number of shares)	
Profit attributable to ordinary shares (E)	₩146,600,053,919	₩2,373,026,068,477
Weighted average number of ordinary shares outstanding (F)	343,028,989	367,294,819
Basic earnings per share [(G)=(E)/(F)]	₩ 427	₩ 6,461

35.2 Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of ordinary shares outstanding which is adjusted by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares include share grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Group's outstanding shares for the period) based on the monetary value of the subscription rights attached to the share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of share grants.

Adjusted profit for diluted earnings per share:

	For the Year Ended December 31,	
	2010	2011
	(In Korean won)	
Profit attributable to ordinary shares	₩146,600,053,919	₩2,373,026,068,477
Adjustment	—	—
Adjusted profit for diluted earnings per share	₩146,600,053,919	₩2,373,026,068,477

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings per share:

	For the Year Ended December 31,	
	2010	2011
	(in number of shares)	
Weighted average number of ordinary shares outstanding	343,028,989	367,294,819
Adjustment		
Share grants	415,726	884,974
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share	343,444,715	368,179,793

Diluted earnings per share:

	For the Year Ended December 31,	
	2010	2011
	(In Korean won)	
Adjusted profit for diluted earnings per share	₩146,600,053,919	₩2,373,026,068,477
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share	343,444,715	368,179,793
Diluted earnings per share	₩ 427	₩ 6,445

36. Insurance Contracts

36.1 Insurance liabilities

The details of insurance liabilities presented within other liabilities as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Individual insurance			
Pure Endowment insurance	₩ 1,053,225	₩1,640,681	₩2,159,534
Death insurance	51,646	51,166	54,008
Joint insurance	932,532	1,152,599	1,301,139
Group insurance	676	234	266
Other	8,615	13,496	15,407
	<u>₩ 2,046,694</u>	<u>₩2,858,176</u>	<u>₩3,530,354</u>

The changes in insurance liabilities for the years ended December 31, 2010 and 2011, are as follows:

<u>For the Year Ended December 31, 2010</u>						
<u>Individual insurance</u>						
	<u>Pure endowment insurance</u>	<u>Death insurance</u>	<u>Joint insurance</u>	<u>Group insurance</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
	(In millions of Korean won)					
Beginning	₩1,053,225	₩51,646	₩ 932,532	₩ 676	₩ 8,615	₩2,046,694
Provision (Reversal)	587,456	(480)	220,067	(442)	4,881	811,482
Ending	<u>₩1,640,681</u>	<u>₩51,166</u>	<u>₩1,152,599</u>	<u>₩ 234</u>	<u>₩13,496</u>	<u>₩2,858,176</u>
<u>For the Year Ended December 31, 2011</u>						
<u>Individual insurance</u>						
	<u>Pure endowment insurance</u>	<u>Death insurance</u>	<u>Joint insurance</u>	<u>Group insurance</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
	(In millions of Korean won)					
Beginning	₩1,640,681	₩51,166	₩1,152,599	₩ 234	₩13,496	₩2,858,176
Provision	518,853	2,842	148,540	32	1,911	672,178
Ending	<u>₩2,159,534</u>	<u>₩54,008</u>	<u>₩1,301,139</u>	<u>₩ 266</u>	<u>₩15,407</u>	<u>₩3,530,354</u>

⁽¹⁾ Consisted of policyholders' profit dividend reserve, reserve for compensation for losses on dividend-paying insurance contracts.

36.2 Insurance-related assets

The details of insurance-related assets presented within other assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Reinsurance assets	₩ 806	₩ 690	₩ 1,064
Deferred acquisition costs	38,580	71,407	126,304
Total	<u>₩ 39,386</u>	<u>₩72,097</u>	<u>₩127,368</u>

The changes in reinsurance assets for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Beginning	₩ 806	₩ 690
Increase (decrease)	(116)	374
Ending	<u>₩ 690</u>	<u>₩ 1,064</u>

The changes in deferred acquisition costs for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Beginning	₩ 38,580	₩ 71,407
Increase (decrease)	59,026	102,476
Amortization	(26,199)	(47,579)
Ending	<u>₩ 71,407</u>	<u>₩ 126,304</u>

36.3 Insurance premiums and reinsurance

The details of insurance premiums for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the Year Ended December 31, 2010</u>				
	<u>Pure endowment insurance</u>	<u>Death insurance</u>	<u>Joint insurance</u>	<u>Group insurance</u>	<u>Total</u>
	(In millions of Korean won)				
Insurance premiums earned	₩ 691,158	₩4,100	₩365,980	₩1,489	₩1,062,727
Reinsurance premiums paid	(328)	(738)	(144)	(322)	(1,532)
Net premiums earned	<u>₩ 690,830</u>	<u>₩3,362</u>	<u>₩365,836</u>	<u>₩1,167</u>	<u>₩1,061,195</u>
	<u>For the Year Ended December 31, 2011</u>				
	<u>Pure endowment insurance</u>	<u>Death insurance</u>	<u>Joint insurance</u>	<u>Group insurance</u>	<u>Total</u>
	(In millions of Korean won)				
Insurance premiums earned	₩ 651,281	₩7,073	₩339,204	₩1,640	₩ 999,198
Reinsurance premiums paid	(333)	(773)	(161)	(1,373)	(2,640)
Net premiums earned	<u>₩ 650,948</u>	<u>₩6,300</u>	<u>₩339,043</u>	<u>₩ 267</u>	<u>₩ 996,558</u>

The details of reinsurance transactions for the years ended December 31, 2010 and 2010, are as follows:

	For the Year Ended December 31, 2010			
	Reinsurance expense	Reinsurance revenue		
		Reinsurance premium paid	Reinsurance claims	Reinsurance commission	Total
	(In millions of Korean won)			
Individual	₩ 1,210	₩ 661	₩ 294	₩ 955
Group	322	360	—	360
Total	₩ 1,532	₩ 1,021	₩ 294	₩1,315

	For the Year Ended December 31, 2011			
	Reinsurance expense	Reinsurance revenue		
		Reinsurance premium paid	Reinsurance claims	Reinsurance commission	Total
	(In millions of Korean won)			
Individual	₩ 1,268	₩ 623	₩ 674	₩1,297
Group	1,372	1,133	—	1,133
Total	₩ 2,640	₩ 1,756	₩ 674	₩2,430

Insurance expenses for the years ended December 31, 2010 and 2010, are as follows:

	For the Year Ended December 31, 2010				
	Pure Endowment insurance	Death insurance	Joint insurance	Group insurance	Total
		(In millions of Korean won)			
Insurance expense	₩ 1,440	₩ 883	₩ 36,807	₩ 990	₩ 40,120
Dividend expense	21	10	—	—	31
Refund expense	107,470	4,105	116,767	182	228,524
Provision(Reversal)	594,632	(2,714)	220,008	(443)	811,483
Sub-total	703,563	2,284	373,582	729	1,080,158
Reinsurance claims	157	443	61	360	1,021
Net insurance expense	₩ 703,406	₩1,841	₩373,521	₩ 369	₩1,079,137

	For the Year Ended December 31, 2011				
	Pure Endowment insurance	Death insurance	Joint insurance	Group insurance	Total
		(In millions of Korean won)			
Insurance expense	₩ 2,010	₩ 670	₩ 25,201	₩1,663	₩ 29,544
Dividend expense	73	11	1	—	85
Refund expense	150,627	3,565	171,090	276	325,558
Provision	521,055	2,557	148,533	32	672,177
Sub-total	673,765	6,803	344,825	1,971	1,027,364
Reinsurance claims	106	433	84	1,133	1,756
Net insurance expense	₩ 673,659	₩6,370	₩344,741	₩ 838	₩1,025,608

36.4 Insurance risk

Summary of insurance risk

Insurance risk is the risk of loss arising from the actual risk at the time of claims exceeding the estimated risk at the time of underwriting. Insurance risk is classified by insurance price risk and policy reserve risk.

Insurance price risk is the risk of loss arising from differences between premiums from policyholders and actual claims paid.

Policy reserve risk is the risk of loss arising from differences between policy reserves the Group holds and actual claims to be paid.

Concentration of insurance risk and reinsurance policy

The Group uses reinsurance with the intent to expand the ability of underwriting insurance contracts through mitigating the exposure to insurance risk, and generates synergy by joint development of products, management discipline and collecting information on foreign markets.

The Group cedes reinsurance for mortality, illness and other risks arising from insurance contracts where the Group has little experience for a necessary period of time required to accumulate experience.

The Group's Reinsurance is ceded through the following process:

i. In the decision-making process of launching a new product, the Group makes a decision on ceding reinsurance. Subsequently, a reinsurer is selected through bidding, agreements with the relevant departments and final approval by of the executive management.

ii. The reinsurance department analyses the object of reinsurance, the maximum limit of reinsurance and the loss ratio with the relevant departments.

The characteristic and exposure of insurance price risk

The insurance risk of a life insurance company is measured by insurance price risk. As the life insurance coverage is in form of a fixed payment, the fluctuation of policy reserve is small and the period from insured event to claims payment is not long, the policy reserve risk is managed by assessments of adequacy of the policy reserve.

The Group measures the exposure of insurance price risk as the shortfall of the risk premiums received compared to the claims paid on all insurance contracts for the last one year from the end of the reporting period.

The exposure of premium risk before mitigating risk by reinsurance as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 1,610	₩ 2,296
Sickness insurance	3,052	1,872
Other life insurance	1,899	760
Total	₩ 6,561	₩ 4,928

	As of December 31, 2010	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 2,200	₩ 1,995
Sickness insurance	2,029	1,429
Other life insurance	2,318	898
Total	<u>₩ 6,547</u>	<u>₩ 4,322</u>

	As of December 31, 2011	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 1,612	₩ 2,666
Sickness insurance	3,121	1,288
Other life insurance	2,973	966
Total	<u>₩ 7,706</u>	<u>₩ 4,920</u>

The exposure of premium risk after mitigating risk by reinsurance as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 908	₩ 2,178
Sickness insurance	2,055	582
Other life insurance	1,430	221
Total	<u>₩ 4,393</u>	<u>₩ 2,981</u>

	As of December 31, 2010	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 1,968	₩ 1,787
Sickness insurance	1,298	889
Other life insurance	1,749	624
Total	<u>₩ 5,015</u>	<u>₩ 3,300</u>

	As of December 31, 2011	
	Risk premium	Claims paid
	(In millions of Korean won)	
Protection insurance	₩ 1,077	₩ 2,100
Sickness insurance	1,538	300
Other life insurance	2,452	764
Total	<u>₩ 5,067</u>	<u>₩ 3,164</u>

The exposure of market risk arising from embedded derivatives included in host insurance contracts as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Variable annuity policyholders reserve	₩ 250,689	₩370,763	₩459,174
Variable universal policyholders reserve	22,404	39,189	70,533
Variable annuity guarantee reserve	1,385	2,980	3,444
Variable universal guarantee reserve	148	324	35

Premium reserves and unearned premium reserves classified based on each residual maturity as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1, 2010</u>						
	<u>Lower than 3 years</u>	<u>3-5 years</u>	<u>5-10 years</u>	<u>10-15 years</u>	<u>15-20 years</u>	<u>Over 20 Years</u>	<u>Total</u>
	(In millions of Korean won)						
Premium reserves	₩104,758	₩40,938	₩ 756,286	₩213,529	₩140,117	₩ 763,415	₩2,019,043
Unearned premium reserves	29	—	2	3	1	6	41
	<u>As of December 31, 2010</u>						
	<u>Lower than 3 years</u>	<u>3-5 years</u>	<u>5-10 years</u>	<u>10-15 years</u>	<u>15-20 years</u>	<u>Over 20 Years</u>	<u>Total</u>
	(In millions of Korean won)						
Premium reserves	₩ 79,161	₩107,265	₩1,088,495	₩275,794	₩255,179	₩1,011,942	₩2,817,836
Unearned premium reserves	28	—	2	—	1	6	37
	<u>As of December 31, 2011</u>						
	<u>Lower than 3 years</u>	<u>3-5 years</u>	<u>5-10 years</u>	<u>10-15 years</u>	<u>15-20 years</u>	<u>Over 20 Years</u>	<u>Total</u>
	(In millions of Korean won)						
Premium reserves	₩ 67,027	₩213,330	₩1,198,711	₩294,585	₩319,018	₩1,389,754	₩3,482,425
Unearned premium reserves	35	—	2	—	2	4	43

37. Supplemental Cash Flow Information

Cash and cash equivalents as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Cash	₩ 1,567,197	₩ 1,594,505	₩ 1,840,829
Checks with other banks	791,481	643,270	781,269
Due from Bank of Korea	5,734,677	2,972,548	3,942,158
Due from other financial institutions	1,009,275	1,619,505	2,613,869
Sub-total	<u>9,102,630</u>	<u>6,829,828</u>	<u>9,178,125</u>
Restricted due from financial institutions	(6,113,627)	(3,360,053)	(4,171,213)
Due from financial institutions with original maturities over three months	(120,369)	(218,196)	(266,108)
Sub-total	<u>(6,233,996)</u>	<u>(3,578,249)</u>	<u>(4,437,321)</u>
Total	<u>₩ 2,868,634</u>	<u>₩ 3,251,579</u>	<u>₩ 4,740,804</u>

Significant non-cash transactions for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the Year Ended</u>	
	<u>December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Decrease in loans due to the write-offs	₩2,278,930	₩2,181,414
Changes in accumulated other comprehensive income due to valuation of investment securities	88,593	(242,668)
Increase in available-for-sale financial assets from debt-equity swap	132,938	1,914

Cash inflow and outflow due to paid from income tax, received (paid) from interest and dividends for the years ended December 31, 2010 and 2011, are as follows:

	<u>Activity</u>	<u>For the Year Ended December 31,</u>	
		<u>2010</u>	<u>2011</u>
		(In millions of Korean won)	
Income tax refunded	Operating	₩ 130,096	₩ 121,533
Interest received	Operating	14,046,425	14,384,913
Interest paid	Operating	6,945,482	6,830,541
Dividends received	Operating	103,055	98,212
Dividends paid	Financing	78,897	41,163
Dividends paid on hybrid capital instrument	Financing	64,600	46,331

38. Contingent liabilities and commitments

Acceptances and guarantees as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	<u>As of January 1,</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)		
Confirmed acceptances and guarantees			
Confirmed acceptances and guarantees in Korean won			
Acceptances and guarantees for corporate purchasing card	₩ 762,199	₩ 801,657	₩ 70,134
Acceptances and guarantees for KB purchasing loan	—	19,724	684,445
Bid bond	—	—	402
Performance bond	—	—	649
Other acceptances and guarantees	874,362	887,885	849,537
Sub-total	<u>1,636,561</u>	<u>1,709,266</u>	<u>1,605,167</u>
Confirmed acceptances and guarantees in foreign currency			
Acceptances of letter of credit	395,410	294,191	411,145
Letter of guarantees	71,323	65,966	57,903
Bid bond	47,406	64,462	41,721
Performance bond	530,191	647,318	437,046
Refund guarantees	3,844,148	2,945,179	3,025,855
Other acceptances and guarantees	333,417	297,813	268,391
Sub-total	<u>5,221,895</u>	<u>4,314,929</u>	<u>4,242,061</u>
Financial guarantees			
Acceptances and guarantees for debentures	890	397	208
Acceptances and guarantees for mortgage	82,372	69,901	57,079
Overseas debt guarantees	216,424	239,707	244,929
International financing guarantees in foreign currencies	296,502	292,470	—
Financial guarantees	—	—	20,000
Sub-total	<u>596,188</u>	<u>602,475</u>	<u>322,216</u>
Total confirmed acceptances and guarantees	<u>7,454,644</u>	<u>6,626,670</u>	<u>6,169,444</u>
Unconfirmed acceptances and guarantees			
Guarantees of letter of credit	5,181,392	4,362,986	4,023,393
Refund guarantees	2,678,712	2,089,411	1,672,063
Total unconfirmed acceptances and guarantees	<u>7,860,104</u>	<u>6,452,397</u>	<u>5,695,456</u>
Total	<u>₩15,314,748</u>	<u>₩13,079,067</u>	<u>₩11,864,900</u>

Acceptances and guarantees by counter party as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Large corporate	₩5,279,776	₩3,511,025	₩ 8,790,801	57.40
Small- and medium-sized enterprise	2,062,959	1,346,199	3,409,158	22.26
Public and others	111,909	3,002,880	3,114,789	20.34
Total	₩7,454,644	₩7,860,104	₩15,314,748	100.00

	As of December 31, 2010			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Large corporate	₩4,619,783	₩2,901,615	₩ 7,521,398	57.51
Small- and medium-sized enterprise	1,893,387	1,277,378	3,170,765	24.24
Public and others	113,500	2,273,404	2,386,904	18.25
Total	₩6,626,670	₩6,452,397	₩13,079,067	100.00

	As of December 31, 2011			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Large corporate	₩4,571,010	₩2,954,567	₩ 7,525,577	63.43
Small- and medium-sized enterprise	1,505,137	1,005,318	2,510,455	21.16
Public and others	93,297	1,735,571	1,828,868	15.41
Total	₩6,169,444	₩5,695,456	₩11,864,900	100.00

Acceptances and guarantees by industry as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1, 2010			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Public sector	₩ 329	₩2,948,404	₩ 2,948,733	19.25
Financial institutions	44,304	72,819	117,123	0.76
Service	271,437	43,144	314,581	2.05
Manufacturing	4,981,682	3,859,891	8,841,573	57.73
Others	2,156,892	935,846	3,092,738	20.19
Total	₩7,454,644	₩7,860,104	₩15,314,748	100.00

	As of December 31, 2010			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Public sector	₩ 38,641	₩2,207,654	₩ 2,246,295	17.18
Financial institutions	28,059	2,067	30,126	0.23
Service	300,826	31,747	332,573	2.54
Manufacturing	4,489,697	3,263,259	7,752,956	59.28
Others	1,769,447	947,670	2,717,117	20.77
Total	<u>₩6,626,670</u>	<u>₩6,452,397</u>	<u>₩13,079,067</u>	<u>100.00</u>

	As of December 31, 2011			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Public sector	₩ 58,129	₩1,663,052	₩ 1,721,181	14.51
Financial institutions	75,048	5,176	80,224	0.68
Service	162,960	49,197	212,157	1.79
Manufacturing	4,196,612	2,884,922	7,081,534	59.68
Others	1,676,695	1,093,109	2,769,804	23.34
Total	<u>₩6,169,444</u>	<u>₩5,695,456</u>	<u>₩11,864,900</u>	<u>100.00</u>

As of January 1, 2010, and December 31, 2010 and 2011, the principal amounts of trust fund for which the Group guarantees payment of principal are as follows and there is no amount the Group has to pay in relation to the management results of these trust funds in accordance with the guarantees of payment of principal as of January 1, 2010, and December 31, 2010 and 2011.

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Trust fund guarantees	₩ 2,868,512	₩ 2,954,320	₩ 2,891,645

Commitments as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

	As of January 1,	As of December 31,	
	2010	2010	2011
	(In millions of Korean won)		
Commitments			
Corporate loan commitments	₩27,029,379	₩27,644,011	₩36,365,468
Retail loan commitments	13,268,454	14,149,393	14,632,998
Credit line on credit cards	43,610,192	44,776,141	39,070,550
Private indirect reinvestment trusts for the stabilization of bond markets	518,913	518,913	1,037,826
UAMCO., Ltd.	162,750	89,950	89,950
Purchase of security investment	796,200	559,950	547,150
Total commitments	<u>85,385,888</u>	<u>87,738,358</u>	<u>91,743,942</u>
Financial Guarantees			
Credit line	297,670	155,162	471,951
Purchase of security investment	521,500	396,050	151,000
Total financial guarantees	<u>819,170</u>	<u>551,212</u>	<u>622,951</u>
Total	<u>₩86,205,058</u>	<u>₩88,289,570</u>	<u>₩92,366,893</u>

Other Matters (including litigation)

i) The Group has filed 130 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), involving aggregate claims of ₩ 713,551 million, and faces 266 lawsuits (as the defendant) (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 837,293 million, which arose in the normal course of the business and are still pending as of December 31, 2011.

The government filed a civil lawsuit against the Korea Lottery Service Inc., an accounting firm and Kookmin Bank seeking total damages of ₩320,800 million. The plaintiff contends that the excessive payment of lottery service commission fees were due to an illegal act of Kookmin Bank's employees and other parties. 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. It is uncertain as to whether the Group will be ultimately liable for the damages in the aforementioned lawsuit. The amount of potential liabilities cannot be estimated as of December 31, 2011.

ii) According to shareholders' agreement on September 25, 2009, among Kookmin Bank, the International Finance Corporation ("IFC") and the remaining shareholders, Kookmin Bank granted a put option to IFC with the right to sell shares of JSC Bank CenterCredit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between Kookmin Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017. However, if the put trigger event defined in the shareholders' agreement occurs, and consequently, if a put notice is delivered to Kookmin Bank within 60 days from the date when IFC recognizes such event, IFC may also exercise its put option at any time after February 24, 2010.

iii) Kookmin Bank underwent a tax investigation by the Seoul Regional Tax Office and in early 2007 was assessed to owe additional corporate tax including local income tax of ₩482,755 million. Kookmin Bank paid this amount to the tax authorities. Subsequently, Kookmin Bank filed a claim for adjudication on August 2007 for repayment of the amount of ₩482,643 million. Of this amount, ₩117,135 million has been refunded to Kookmin Bank following a successful appeal to the National Tax Tribunal and administrative litigations. Further a portion of the claim amounting to ₩970 million has been extinguished following litigation. Meanwhile, the claim for a refund of ₩364,538 million, specifically related to the merger of Kookmin Card Co., Ltd. was ruled in favor of Kookmin Bank in an original case on April 1, 2011, and in a second trial at the Seoul High Court on January 12, 2012. The ruling has been appealed by the Tax authorities to the Supreme Court, where it is currently pending third trial.

39. Asset-backed securitization

The Group transferred loans and other financial assets to SPEs, and issued debentures secured by those transferred assets.

The details of borrowings which are secured by loans and other financial assets as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

As of January 1, 2010					
	Interest rates (%)	Expiration date	Senior debentures	Underlying assets	
				Loans	Securities
(In millions of Korean won)					
KB 12th Securitization Specialty Co., Ltd. ⁽³⁾	7.00~8.50	2011-01-21	₩ 70,000	₩ 72,882	₩ —
KB 13th Securitization Specialty Co., Ltd. ⁽³⁾	3.82~6.41	2011-07-02	165,000	218,980	—
KB Mortgage Loan First Securitization Specialty Co., Ltd. ⁽¹⁾	2.63	2039-12-08	540,520	592,054	—
KAMCO Value Recreation 3th Securitization Specialty Co., Ltd. ⁽²⁾	6.27	2012-10-09	3,258	19,000	—
New Star 1st Co., Ltd. ⁽³⁾	4.65~5.05	2010-01-18	100,000	—	99,285
Total			878,778	902,916	99,285
Premiums (discounts) on debentures			(297)	—	—
Net Senior debentures			₩878,481	₩902,916	₩99,285

As of December 31, 2010					
	Interest rates (%)	Expiration date	Senior debentures	Underlying assets	
				Loans	Securities
(In millions of Korean won)					
KB 14th Securitization Specialty Co., Ltd. ⁽³⁾	6.03~6.57	2011-10-04~ 2012-01-04	₩ 30,000	₩ 85,564	₩ —
KB Mortgage Loan First Securitization Specialty Co., Ltd. ⁽¹⁾	1.98	2039-12-08	423,379	522,059	—
KAMCO Value Recreation 3th Securitization Specialty Co., Ltd. ⁽²⁾	5.08	2012-10-09	3,258	19,000	—
New Star 1st Co., Ltd. ⁽³⁾	4.65~5.05	2011-01-18	100,300	—	100,985
Total			556,937	626,623	100,985
Premiums (discounts) on debentures			(12)	—	—
Net Senior debentures			₩556,925	₩ 626,623	₩100,985

As of December 31, 2011					
	Interest rates (%)	Expiration date	Senior debentures	Underlying assets	
				Loans	Securities
(In millions of Korean won)					
KB Mortgage Loan 1st Securitization Specialty Co., Ltd. ⁽¹⁾	2.57	2039-12-08	₩335,169	₩ 434,376	₩ —
KAMCO Value Recreation 3th Securitization Specialty Co., Ltd. ⁽²⁾	5.16	2012-10-09	3,258	19,000	—
New Star 1st Co., Ltd. ⁽³⁾	5.05	2012-01-18	50,000	—	50,218
KB Kookmin Card First Securitization Co., Ltd. ⁽¹⁾	LIBOR+0.48	2014-11-26	345,990	616,089	—
Total			734,417	1,069,465	50,218
Premiums (discounts) on debentures			(2,566)	—	—
Net Senior debentures			₩731,851	₩1,069,465	₩ 50,218

- (1) Included in the floating rate debentures in foreign currencies (Note 22).
(2) Included in the floating rate debentures in Korean won (Note 22).
(3) Included in the fixed rate debentures in Korean won (Note 22).

40. The Subsidiaries

The details of subsidiaries as of December 31, 2011, are as follows:

Investor	Investee	Ownership interests(%)	Location	Reporting date	Industry
KB Financial Group Inc.	Kookmin Bank	100.00	Korea	Dec. 31	Banking and domestic, foreign exchange transaction
	KB Kookmin Card Co., Ltd.	100.00	Korea	Dec. 31	Credit card & Installment finance
	KB Investment & Securities Co., Ltd.	100.00	Korea	Dec. 31	Financial investment
	KB Life Insurance Co., Ltd.	51.00	Korea	Dec. 31	Life insurance
	KB Asset Management Co., Ltd.	100.00	Korea	Dec. 31	Security investment trust management and advisory
	KB Real Estate Trust Co., Ltd.	100.00	Korea	Dec. 31	Real estate trust management
	KB Investment Co., Ltd.	100.00	Korea	Dec. 31	Investment in small company
	KB Credit Information Co., Ltd.	100.00	Korea	Dec. 31	Collection of receivables or credit investigation
	KB Data System Co., Ltd.	100.00	Korea	Dec. 31	Software advisory, development, and supply
	Kookmin Bank	Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Dec. 31	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.		100.00	Hong Kong	Dec. 31	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.		53.19	Cambodia	Dec. 31	Banking and foreign exchange transaction
Principal & interest guaranteed trust ⁽¹⁾		—	Korea	Dec. 31	Trust
KB Mortgage Loan First Securitization Specialty Co., Ltd. and 6 others ⁽¹⁾		—	Korea and others	Dec. 31	Asset-backed securitization
KB Evergreen Private Securities 26 and 21 others		100.00	Korea	Dec. 31	Private equity fund
Kookmin Bank, KB Investment Co., Ltd.		KB06-1 Venture Investment	75.00	Korea	Dec. 31	Capital investment
	KB08-1 Venture Investment	100.00	Korea	Dec. 31	Capital investment

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests(%)</u>	<u>Location</u>	<u>Reporting date</u>	<u>Industry</u>
KB Investment Co., Ltd.	NPC 05-6 KB Venture Fund ⁽²⁾	20.00	Korea	Dec. 31	Capital investment
	NPC 07-5 KB Venture Fund ⁽²⁾	20.00	Korea	Dec. 31	Capital investment
	09-5 KB Venture Fund ⁽²⁾	33.33	Korea	Dec. 31	Capital investment
	NPS 06-5 KB Corporate Restructuring Fund ⁽²⁾	13.57	Korea	Dec. 31	Capital investment
	NPS KBIC Private Equity Fund No. 1 ⁽³⁾	2.56	Korea	Dec. 31	Capital investment
	KoFC-KB Pioneer Champ No.2010-8 Investment Partnership ⁽²⁾	50.00	Korea	Dec. 31	Capital investment
	KBIC Private Equity Fund No. 3 ⁽³⁾	2.00	Korea	Dec. 31	Capital investment
	2011 KIF-KB IT Venture Fund ⁽²⁾	43.33	Korea	Dec. 31	Capital investment
	KoFC-KB Young Pioneer 1st Fund ⁽³⁾	33.33	Korea	Dec. 31	Capital investment
	KB Investment & Securities	KB-Glenwood Private Equity Fund 1 ⁽³⁾	0.03	Korea	Dec. 31	Capital investment
New Star 1st. Ltd ⁽¹⁾		—	Korea	Dec. 31	Asset-backed securitization
KB-Glenwood Private Equity Fund 1 Chungkang Co., Ltd.	Chungkang Co., Ltd.	100.00	Korea	Dec. 31	Capital investment
	Powernet Technologies Co., Ltd.	92.64	Korea	Dec. 31	Electronic product manufacturing
KB Kookmin Card Co., Ltd	KB Kookmin Card First Securitization Co., Ltd. ⁽¹⁾	—	Korea	Dec. 31	Asset-backed securitization
KB Life Insurance Co., Ltd.	KB Evergreen Private securities 49 (Bond) and 7 others	100.00	Korea	Dec. 31	Private equity fund

(1) The activities of entities, decision-making powers and benefits and risks are considered when special purpose entities are consolidated.

(2) Consolidated because the Group controls the entity as a general partner.

(3) Consolidated because the Group controls the entity as a managing member.

The condensed financial information of major subsidiaries as of January 1, 2010, and as of and for the years ended December 31, 2010 and 2011, are as follows:

	As of January 1, 2010		
	Assets	Liabilities	Equity
	(In millions of Korean won)		
Kookmin Bank ⁽¹⁾	₩257,644,139	₩236,763,981	₩20,880,158
KB Investment & Securities Co., Ltd. ⁽¹⁾	2,231,260	1,930,018	301,242
KB Life Insurance Co., Ltd. ⁽¹⁾	2,524,059	2,372,540	151,519
KB Asset Management Co., Ltd	108,735	12,699	96,036
KB Real Estate Trust Co., Ltd	257,767	134,672	123,095
KB Investment Co., Ltd. ⁽¹⁾	425,136	320,862	104,274
KB Futures Co., Ltd	236,949	199,710	37,239
KB Credit Information Co., Ltd	29,488	6,189	23,299
KB Data System Co., Ltd	45,698	28,549	17,149

	As of and for the Year Ended December 31, 2010					
	Assets	Liabilities	Equity	Operating revenue	Profit for the period	Total comprehensive income for the period
	(In millions of Korean won)					
Kookmin Bank ⁽¹⁾	₩254,529,047	₩233,572,778	₩20,956,269	₩23,632,024	₩151,062	₩234,738
KB Investment & Securities Co., Ltd. ⁽¹⁾	2,420,085	2,071,770	348,315	536,198	39,535	47,073
KB Life Insurance Co., Ltd. ⁽¹⁾	3,673,209	3,343,362	329,847	1,241,274	18,362	58,903
KB Asset Management Co., Ltd	142,826	17,145	125,681	69,151	29,306	29,645
KB Real Estate Trust Co., Ltd	259,189	130,057	129,132	51,038	6,020	6,037
KB Investment Co., Ltd. ⁽¹⁾	524,755	419,053	105,702	35,973	212	1,428
KB Futures Co., Ltd	192,863	150,076	42,787	27,564	4,528	5,548
KB Credit Information Co., Ltd	31,263	6,412	24,851	46,325	1,552	1,552
KB Data System Co., Ltd	52,374	38,302	14,072	130,527	(3,077)	(3,077)

As of and for the Year Ended December 31, 2011

	Assets	Liabilities	Equity	Operating revenue	Profit for the period	Total compre- hensive income for the period
	(In millions of Korean won)					
Kookmin Bank ⁽¹⁾	₩256,512,260	₩237,443,855	₩19,068,405	₩22,274,350	₩2,047,881	₩1,601,009
KB Kookmin Card Co., Ltd. ⁽¹⁾	13,349,351	10,567,141	2,782,210	2,426,030	319,794	328,188
KB Investment & Securities Co., Ltd. ⁽¹⁾	3,314,875	2,792,356	522,519	787,354	28,169	37,732
KB Life Insurance Co., Ltd. ⁽¹⁾	4,515,809	4,161,121	354,688	1,220,799	18,572	24,842
KB Asset Management Co., Ltd	177,691	57,612	120,079	83,855	(5,655)	(5,603)
KB Real Estate Trust Co., Ltd	251,228	106,584	144,644	51,564	15,405	15,512
KB Investment Co., Ltd. ⁽¹⁾	498,506	382,444	116,062	61,574	9,322	10,360
KB Credit Information Co., Ltd	30,529	8,069	22,460	54,874	(2,391)	(2,391)
KB Data System Co., Ltd	30,590	14,370	16,220	117,467	2,148	2,148

⁽¹⁾ Financial information is based on its consolidated financial statements.

Kookmin Bank

Kookmin Bank engages in the banking business in accordance with Banking Act, trust business in accordance with Capital Market and Financial Investment Business Act and other relevant businesses. As of December 31, 2011, Kookmin Bank has 1,165 domestic branches and offices and 7 overseas branches (excluding 3 subsidiaries and 2 offices). Kookmin Bank's capital stock as of December 31, 2011, is ₩ 2,021,896 million.

KB Kookmin Card Co., Ltd.

KB Kookmin Card Co., Ltd. (the "KB Kookmin Card") was established upon spin off of Kookmin Bank's credit card business segment in March 2011, to engage in the credit card business under the Act on Registration of Credit Business and Protection of Finance Users and other related business. Its headquarters are located in Seoul. KB Kookmin Card's capital stock as of December 31, 2011, is ₩ 460,000 million.

KB Investment & Securities Co., Ltd.

KB Investment & Securities Co., Ltd. (the "KB Investment & Securities") was established on August 16, 1995, to engage in financial investment business services including investment trading services and brokerage services and in other related services in accordance with the Capital Market and Financial Investment Business Act. On March 11, 2008, the former Hannuri Investment & Securities changed its name to KB Investment & Securities. KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. on March 12, 2011. Its headquarters are located in Seoul. KB Investment & Securities' capital stock as of December 31, 2011, is ₩ 157,942 million.

KB Life Insurance Co., Ltd.

KB Life Insurance Co., Ltd. (the “KB Life Insurance”) was established on April 29, 2004, to engage in financial insurance operations. On May 31, 2004, the company merged with Hanil Life Insurance Co., Ltd., undertaking all the insurance contracts and related assets and liabilities. The life insurance business under the Insurance Business Act is one of the company’s major business operations. Its headquarters are located in Seoul. KB Life Insurance’s capital stock as of December 31, 2011, is ₩ 276,000 million.

KB Asset Management Co., Ltd.

KB Asset Management Co., Ltd. (the “KB Asset Management”) was established on April 1988 to engage in investment advisory services including consulting and providing information on investments in securities. On July 1997, it started to engage in collective investment businesses (previously known as security investment trust operations) under the Capital Market and Financial Investment Business Act (previously called the Security Investment Trust Business Act). Its headquarters are located in Seoul. KB Asset Management’s capital stock as of December 31, 2011, is ₩ 38,338 million.

Real Estate Trust Co., Ltd.

KB Real Estate Trust Co., Ltd. (the “KB Real Estate Trust”) was established on December 3, 1996, to provide real estate trust services including land trust. Under the Capital Market and Financial Investment Business Act (previously called the Trust Business Act), the Financial Services Commission authorized the company to engage in real estate trust service. On September 16, 2002, the name of the company changed to KB Real Estate Trust Co., Ltd. from Joeeun Real Estate Trust Inc. Its headquarters are located in Seoul. KB Real Estate Trust’s capital stock as of December 31, 2011, is ₩ 80,000 million.

KB Investment Co., Ltd.

KB Investment Co., Ltd. (the “KB Investment”) was established on March 27, 1990, to provide services to small startup companies. Its main business is to invest in venture companies and small startup companies, and to organize startup investment cooperatives and private equity funds. On April 3, 1990, the company, under Section 7 of the Support for Small and Medium Enterprise Establishment Act, was listed on the Small Business Administration as a small startup business investment organization. KB Investment purchases impaired loans, invests in companies under debt restructuring process, and sells reorganized companies after normalization. In March 2001, the company, under the Industrial Development Act, registered as a Corporate Restructuring Company in the Ministry of Knowledge Economy. As approved by its shareholders on June 25, 2009, its name was changed to KB Investment Co., Ltd. Its headquarters are located in Seoul. KB Investment’s capital stock as of December 31, 2011, is ₩ 44,759 million.

KB Credit Information Co., Ltd.

KB Credit Information Co., Ltd. (the “KB Credit Information”) was established on October 9, 1999, under the Credit Information Protection Act to engage in loan collection services and credit research services. On May 2, 2002, the company merged with KM Credit Information Inc. to improve management of subsidiaries. As approved by its shareholders on October 28, 2002, its name was changed from Kookeun Credit Information Co., Ltd. to KB Credit Information Co., Ltd. Its headquarters are located in Seoul. KB Credit Information’s capital stock as of December 31, 2011, is ₩ 6,262 million.

KB Data Systems Co., Ltd.

KB Data Systems, Co., Ltd. (the “KB Data Systems”) was established on September 1991 to engage in computer system development and its sales, system maintenance, and information technology outsourcing services. Its headquarters are located in Seoul. KB Data Systems’ capital stock as of December 31, 2011, is ₩ 8,000 million.

Kookmin Bank Int'l Ltd.(London)

Kookmin Bank Int'l Ltd.(London) was established in November 1991 and operates its businesses mainly in general banking, trading finance, foreign currency exchange, and derivatives. Its name was changed from Korea Long Term Credit Bank Int'l Ltd. to Kookmin Bank Int'l Ltd.(London) when the Bank merged with Korea Long Term Credit Bank in January 1999. The headquarters are located in London, England. Kookmin Bank Int'l Ltd.(London)'s capital stock as of December 31, 2011, is USD 30,392,000.

Kookmin Bank Hong Kong Ltd.

Kookmin Bank Hong Kong Ltd. was established in July 1995 and operates its businesses in general banking and trading finance. The headquarters are located in Hong Kong. Kookmin Bank Hong Kong Ltd.'s capital stock as of December 31, 2011, is USD 20,000,000.

Kookmin Bank Cambodia PLC.

Kookmin Bank acquired 51% of ownership of Kookmin Bank Cambodia PLC. in May 2009. As of December 31, 2011, Kookmin Bank owns 53.19% through participation in capital stock increase in December 2010. In particular, Kookmin Bank Cambodia PLC. mainly operates lending, borrowing, foreign currency exchange services, and other ordinary banking businesses. The headquarters are located in Phnom Penh, Cambodia. Kookmin Bank Cambodia PLC.'s capital stock as of December 31, 2011, is USD 16,000,000.

Special Purpose Entities(SPEs)

Subsidiaries are all entities (including SPEs) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. However, there are some cases where the Group may still control some entities, mostly SPEs, with less than one half of the voting rights for a single, well-defined, and narrow purpose. SPEs may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor.

The Group consolidates an SPE when, in substance, the Group controls the SPE as follows:

- In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the Group obtains benefits from the SPE's operations;
- In substance, the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- In substance, the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The types of SPEs include asset-backed securitization specialty companies, project financing companies, private equity funds, and partnerships. The purpose of business activities of SPEs are the asset-backed securitization, providing lines of credit and loans, investing in equity shares and managing assets.

Changes in subsidiaries

KB Kookmin Card First Securitization Co., Ltd., 2011 KIF-KB IT Venture Fund, KoFC-KB Young Pioneer 1st Fund and KB Evergreen Private Securities 35(Bond) and other 47 private equity funds are newly included in consolidation. KB Investment & Securities Hong Kong Ltd., Kookmin No.16 Investment Partnership, KB 9th Securitization Specialty Co., Ltd. and five asset-backed securitization SPEs and PCA Income Private Securities A-5(Bond) and other 31 private equity funds have been excluded from consolidation because those were liquidated. In March, 2011, Kookmin Bank spun off its credit card business segment and established a new subsidiary, KB Kookmin Card Co., Ltd., and KB investment & Securities Co., Ltd. merged with KB Futures Co., Ltd.

41. Finance/Operating Lease

41.1 Finance lease

The future minimum lease payments arising as of December 31, 2011, are as follows:

	<u>As of December 31, 2011</u> (In millions of Korean won)
Net Carrying amount of finance lease assets	₩ 18,477
Minimum lease payment	
Within 1 year	754
1-5 years	637
Total	<u>1,391</u>
Present value of minimum lease payment	
No later than 1 year	697
1-5 years	601
Total	<u>1,298</u>
Contingent rent	—
Minimum sublease	—

41.2 Operating lease

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2011, are as follows:

	<u>As of December 31, 2011</u> (In millions of Korean won)
Minimum lease payment	
Within 1 year	₩ 104,327
1-5 years	79,970
Over 5 years	1,287
Total	<u>185,584</u>
Minimum sublease payment	(15)
Lease payment reflected in profit or loss	
Minimum lease payment	188,854
Contingent rent	4
Sublease payment	(53)
Total	<u>188,805</u>

42. Related Party Transactions

Significant transactions with related parties for the years ended December 31, 2010 and 2011, are as follows:

		For the Year Ended December 31, 2010		
		Interest income and others	Provision (reversal)	Interest expense and others
		(In millions of Korean won)		
Associates	Korea Credit Bureau Co., Ltd	₩ 3	₩ —	₩ 186
	UAMCO., Ltd	1,950	71	95
	KB Global Star Game & Apps SPAC	321	—	76
	Testian Co., Ltd	46	21	—
	Semiland Co., Ltd	25	7	—
	Powerrex Corporation Co., Ltd	32	(5)	1
	Sehwa Electronics Co., Ltd	37	(3)	17
	Serit Platform Co., Ltd	60	(24)	5
	KT Wibro infrastructure Co., Ltd	3	—	55
Joint venture	Burrill-KB Life Science Fund	1,205	—	785
Key management	Retirement pension	10,403	30	534
Other	Retirement pension	107	—	453
Total		₩ 14,192	₩ 97	₩ 2,207

		For the Year Ended December 31, 2011				
		Gain on sale of loans	Interest income and others	Provision (reversal)	Loss on sale of loans	Interest expense and others
		(In millions of Korean won)				
Associates	Korea Credit Bureau Co., Ltd	₩ —	₩ —	₩ —	₩ —	₩ 168
	UAMCO., Ltd	13,455	1,196	(3)	40,879	3
	KB Global Star Game & Apps SPAC	—	1,443	—	—	36
	Testian Co., Ltd	—	24	8	—	—
	United PF 1 st Recovery Private Equity Fund	30,722	—	—	—	—
	JSC Bank CenterCredit	—	—	—	—	218
	Semiland Co., Ltd	—	17	(3)	—	1
	Powerrex Corporation Co., Ltd	—	74	(104)	—	1
	Sehwa Electronics Co., Ltd	—	21	—	—	19
	Serit Platform Co., Ltd	—	85	26	—	—
	DS Plant Co., Ltd	—	376	39	—	—
Joint venture	Burrill-KB Life Science Fund	—	—	—	—	17
Key management	Retirement pension	—	397	(1)	—	297
Other	Retirement pension	—	199	—	—	898
Total		₩ 44,177	₩ 3,832	₩ (38)	₩ 40,879	₩ 1,658

The details of receivables and payables, and related allowances for loans losses arising from the related party transactions as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

		<u>As of January 1, 2010</u>		
		<u>Receivables</u>	<u>Allowances for loan losses</u>	<u>Payables</u>
		(In millions of Korean won)		
Associates	Korea Credit Bureau Co., Ltd	₩ —	₩ —	₩ 4,997
	UAMCO., Ltd	—	—	11,178
	Semiland Co., Ltd	1	—	10
	Powerrex Corporation Co., Ltd	150	109	86
	Sehwa Electronics Co., Ltd	1	3	903
	Serit Platform Co., Ltd	368	74	593
Joint venture	Burrill-KB Life Science Fund	—	—	—
Key management		194,249	633	111,505
Other	Retirement pension	—	—	8,351
Total		<u>₩194,769</u>	<u>₩ 819</u>	<u>₩137,623</u>
		<u>As of December 31, 2010</u>		
		<u>Receivables</u>	<u>Allowances for loan losses</u>	<u>Payables</u>
		(In millions of Korean won)		
Associates	Korea Credit Bureau Co., Ltd	₩ —	₩ —	₩ 9,725
	UAMCO., Ltd	40,330	71	15
	KB Global Star Game & Apps SPAC	1,083	—	1,472
	Testian Co., Ltd	610	21	—
	Semiland Co., Ltd	229	7	—
	Joam Housing Development Co., Ltd	—	—	75
	Powerrex Corporation Co., Ltd	3,288	104	10
	Sehwa Electronics Co., Ltd	350	—	25
	Serit Platform Co., Ltd	786	50	9
	Joint venture	Burrill-KB Life Science Fund	—	—
Key management		154,763	72	14,559
Other	Retirement pension	—	—	7,919
Total		<u>₩201,439</u>	<u>₩ 325</u>	<u>₩33,809</u>

		As of December 31, 2011		
		Receivables	Allowances for loan losses	Payables
		(In millions of Korean won)		
Associates	Korea Credit Bureau Co., Ltd . . .	₩ —	₩ —	₩ 12,575
	UAMCO., Ltd	38,745	68	146
	JSC Bank CenterCredit	—	—	23,066
	KB Global Star Game & Apps SPAC	2,488	—	21,766
	Testian Co., Ltd	632	29	—
	Semiland Co., Ltd	151	4	114
	Joam Housing Development Co., Ltd	—	—	58
	Powerrex Corporation Co., Ltd	—	—	10
	Sehwa Electronics Co., Ltd	38	—	649
	Serit Platform Co., Ltd	768	76	17
	DS Plant Co., Ltd	3,167	39	97
Joint venture	Burrill-KB Life Science Fund . . .	—	—	—
Key management		22,433	33	8,814
Other	Retirement pension	—	—	36,516
Total		<u>₩ 68,422</u>	<u>₩ 249</u>	<u>₩ 103,828</u>

According to IAS 24, the Group includes subsidiaries, associates, joint ventures, key management (including family members), and post-employment benefit plans of the Group in the scope of related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the financial statements. Refer to Note 13 for details on investments in associates and joint ventures.

Key management includes the directors of the Parent Company and the directors of Kookmin Bank and subsidiaries where the directors and their close family members have the power to influence the decision-making process. The Group recognized receivables amounting to ₩ 194,249 million, ₩ 154,763 million and ₩ 22,433 million as of January 1, 2010, and December 31, 2010 and 2011, respectively, and related allowances for loan losses amounting to ₩ 633 million, ₩ 72 million and ₩ 33 million as of January 1, 2010, and December 31, 2010 and 2011, from the sale to key management. Of those respective amounts, receivables amounting to ₩ 190,760 million, ₩ 152,023 million and ₩ 16,497 million, and related allowance for loan loss amounting to ₩ 628 million, ₩ 68 million and ₩ 21 million, are from companies where key management has a power to influence the decision-making process.

Accrued severance benefit plan is based on the retirement benefit pension plan with the Group and related parties enrolled in. The Group discloses receivable and payable balances arising from transactions between the Group and the retirement benefit pension plan assets in the notes to the financial statements. Kookmin Bank, one of the subsidiaries of the Group, has received deposits of ₩ 8,351 million, ₩ 7,919 million and ₩ 36,516 million as of January 1, 2010, and December 31, 2010 and 2011, respectively, from the retirement benefit pension plan and accounted for the amounts received as deposits under liabilities.

Guarantees to related parties as of January 1, 2010, and December 31, 2010 and 2011, are as follows:

		<u>As of January 1,</u>	<u>As of December 31,</u>	
		<u>2010</u>	<u>2010</u>	<u>2011</u>
(In millions of Korean won)				
UAMCO., Ltd.	Loan commitments in Korean won	₩ —	₩87,548	₩89,077
	Purchase of security investment	162,750	89,950	89,950
Sehwa Electronics Co., Ltd. and others	Loan commitments in Korean won	—	3,940	2,891
	Others	2,566	2,790	2,171

The details of compensation to key management for the years ended December 31, 2010 and 2011, are as follows:

<u>For the Year Ended December 31, 2010</u>					
	<u>Short-term employee benefits</u>	<u>Post-employment benefit</u>	<u>Termination benefits</u>	<u>Share-based payments</u>	<u>Total</u>
(In millions of Korean won)					
Registered directors (executive)	₩ 2,996	₩ 205	₩ —	₩ (5,695)	₩ (2,494)
Registered directors (non-executive)	559	—	—	(254)	305
Non-registered directors	8,212	301	243	4,632	13,388
Total	<u>₩11,767</u>	<u>₩ 506</u>	<u>₩ 243</u>	<u>₩ (1,317)</u>	<u>₩11,199</u>

<u>For the Year Ended December 31, 2011</u>					
	<u>Short-term employee benefits</u>	<u>Post-employment benefit</u>	<u>Termination benefits</u>	<u>Share-based payments</u>	<u>Total</u>
(In millions of Korean won)					
Registered directors (executive)	₩ 4,614	₩ 284	₩ —	₩ 2,654	₩ 7,552
Registered directors (non-executive)	1,011	—	—	(48)	963
Non-registered directors	5,769	505	135	840	7,249
Total	<u>₩11,394</u>	<u>₩ 789</u>	<u>₩ 135</u>	<u>₩ 3,446</u>	<u>₩15,764</u>

43. Approval of Financial Statements

The financial statements as of and for the year ended December 31, 2011, were approved on February 9, 2011, by the Board of Directors.

44. Event after the Reporting Period

The Group established KB Savings Bank Co., Ltd. with a capital investment of ₩ 171,526 million in January 2012. KB Savings Bank Co., Ltd. signed a purchase & assumption (P&A) deal for selected assets and liabilities of Jeil Savings Bank Co., Ltd. with Korea Deposit Insurance Corporation on January 11, 2012. KB Savings Bank Co., Ltd. obtained an approval for operation from the Financial Services Commission and acquired the assets and liabilities of Jeil Savings Bank Co., Ltd. on January 13, 2012. The Group expects synergies from diversification of customers through the P&A deal and has recognized the goodwill attributable to the synergies in 2012.

The consideration transferred and the assets and liabilities arising from the P&A deal are as follows. As the final due diligence is in progress, according to the agreement with Korea Deposit Insurance Corporation, the amounts of assets acquired and the liabilities assumed are provisional and are subject to change per the final due diligence and valuation results.

	<u>Amounts</u>	
	(In millions of Korean won)	
Total consideration	₩	—
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and due from financial institutions		40,575
Financial assets at fair value through profit and loss		467
Loans		275,940
Financial investments		17,204
Other assets		2,212,155
Total assets	₩	2,546,341
Deposits		2,557,858
Other liabilities		96,483
Total liabilities	₩	2,654,341
Total identifiable net assets		₩(108,000)
Goodwill	₩	108,000
Acquisition-related costs ⁽¹⁾		1,527

(1) Recorded in fee and commission expense in the statement of comprehensive income.

The receivables including loans from the P&A deal at the acquisition date are as follows:

	<u>Amounts</u>	
	(In millions of Korean won)	
Fair value		
Loans	₩	275,940
Other receivables		2,212,155
Total	₩	2,488,095
Contractual cash flow		
Loans	₩	400,514
Other receivables		2,212,155
Total	₩	2,612,669
Estimate of the contractual cash flows not expected to be collected		
Loans	₩	124,574
Other receivables		—
Total	₩	124,574

45. Parent Company Information

The following tables present the Parent Company Only financial information:

Condensed Statements of Financial Position

	<u>2010.01.01</u>	<u>2010.12.31</u>	<u>2011.12.31</u>
	(In millions of Korean won)		
Assets			
Cash held at bank subsidiaries	₩ 845,366	₩ 759,998	₩ 32,031
Receivables from nonbanking subsidiaries	170,000	160,000	60,000
Investments in subsidiaries ⁽¹⁾			
Banking subsidiaries	16,774,896	16,774,896	14,821,721
Nonbanking subsidiaries	837,226	898,426	2,951,601
Other assets	36,826	186,592	645,337
Total assets	<u>₩18,664,314</u>	<u>₩18,779,912</u>	<u>₩18,510,690</u>
Liabilities and shareholders' equity			
Debts	₩ —	₩ —	₩ 130,000
Debentures	798,421	799,353	49,988
Other liabilities	7,450	159,438	614,422
Shareholders' equity	17,858,443	17,821,121	17,716,280
Total liabilities and shareholders' equity	<u>₩18,664,314</u>	<u>₩18,779,912</u>	<u>₩18,510,690</u>

⁽¹⁾ Investments in subsidiaries were accounted at cost method in accordance with IAS 27.

Condensed Statements of Income

	<u>2010</u>	<u>2011</u>
	(In millions of Korean won)	
Income		
Dividends from subsidiaries:		
Dividends from banking subsidiaries	₩ 95,305	₩ —
Interest from subsidiaries	36,150	26,999
Other income	831	884
Total income	<u>132,286</u>	<u>27,883</u>
Expense		
Interest expense	53,431	41,571
Noninterest expense	38,177	51,537
Total expense	<u>91,608</u>	<u>93,108</u>
Profit(loss) before tax expense	<u>40,678</u>	<u>(65,225)</u>
Tax income(expense)	897	1,547
Profit(loss) for the year	<u>₩ 41,575</u>	<u>(63,678)</u>

Condensed Statements of Cash Flows

	<u>2010</u>	<u>2011</u>
	<u>(In millions of Korean won)</u>	
Operating activities		
Net income (loss)	₩ 41,575	₩ (63,678)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Other operating activities, net	11,442	(4,383)
Net cash provided by (used in) operating activities	<u>53,017</u>	<u>(68,061)</u>
Investing activities		
Net payments from (to) subsidiaries	(51,200)	—
Other investing activities, net	(8,288)	(10,743)
Net cash used in investing activities	<u>(59,488)</u>	<u>(10,743)</u>
Financing activities		
Increase in debts	—	130,000
Decreases in debentures	—	(750,000)
Cash dividends paid	(78,897)	(41,163)
Net cash provided by (used in) financing activities	<u>(78,897)</u>	<u>(661,163)</u>
Net increase in cash held at bank subsidiaries	(85,368)	(739,967)
Cash held at bank subsidiaries at January 1	<u>845,363</u>	<u>759,995</u>
Cash held at bank subsidiaries at December 31	<u>₩759,995</u>	<u>₩ 20,028</u>

46. Transition to IFRS

Until December 31, 2010, the Group prepared its consolidated financial statements in accordance with both of K-GAAP and U.S. GAAP for the SEC filings in the U.S. The following sets out reconciliations and descriptions of the effects of the transition from K-GAAP to IFRS, and from U.S. GAAP to IFRS, on the Group's equity as of January 1, 2010 and December 31, 2010, comprehensive income and cash flows for the year ended December 31, 2010.

46.1 Reconciliation of IFRS comparables from IFRS and K-GAAP

46.1.1 Main policy differences between K-GAAP and IFRS

	<u>K-GAAP</u>	<u>IFRS</u>
Consolidation	<p>Determined by Article 1-3 (1) and (2) of External Audit of Stock Companies before amendment.</p> <ul style="list-style-type: none">• Largest shareholder with 30% or more of voting power in subsidiary.• Where it can exercise rights in determining significant financial or operational decisions of other companies and the companies are determined to be consolidated by the Korean Financial Services Commission.	<p>For operating companies, ownership of the majority of voting rights, either directly or indirectly, leads to consolidation. Potential voting rights are considered and in assessing whether potential voting rights contribute to control, the Group examines all facts and circumstances that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.</p> <p>A SPE is consolidated by the Group where it is deemed to control it. Indicators of control are as follows:</p> <ul style="list-style-type: none">• the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the entity obtains benefits from the SPE's operation.• the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers.• the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.• the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. <p>Based on analysis of above factors, there are some changes in the consolidation scope of SPEs under IFRS.</p>

	K-GAAP	IFRS
Allowances for loan losses	<p>The calculation of allowances for loan losses is based on the estimates made through reasonable and objective method for receivables of uncertain collectability.</p> <p>The higher amount estimated using the two methods below is used:</p> <p>i) allowances for loan losses based on historical loss data.</p> <p>ii) allowances provided in accordance with directed minimum percentage rate in its respective asset quality category as prescribed by the Regulation on Supervision of Banking Business.</p>	<p>If there is objective evidence that an impairment loss on loans at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.</p> <p>An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.</p> <p>If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.</p> <p>Such collective assessment is determined by applying a probability of default of a group of assets and a loss given default by type of recovery method with regard to various factors such as type of collateral, product and borrowers, credit rating, loss emergence period, collecting period amongst others.</p>
Provisions for unused commitments/ guarantees	<p>Reserve more than minimum funding rate of asset quality in accordance with rules reflecting a result of asset quality classification and credit conversion factor.</p>	<p>The amount recognized as provisions shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of provisions. Where the effect of the time value of money is material, the amount of provisions shall be the present value of the expenditures expected to be required to settle the obligation. Evaluation models using various risk factors such as CCF (Credit Convert Factor), PD (Probability of Default) and LGD (Loss Given Default) are employed.</p>

	K-GAAP	IFRS
Interest income recognized by effective interest method	<p>Interest income is recognized using the effective interest method except for the following which is recognized when cash is received:</p> <p>i) Interest on loan whose principal or interest is past due at the end of the reporting period, or,</p> <p>ii) loans with entity at default that have no guarantee from financial institutions and have deposits as collateral which are less than the outstanding amount at the end of the reporting period.</p> <p>Loan origination costs that have future economic benefits and identifiable by transactions are deferred and amortized using effective interest method.</p>	<p>Interest income is recognized using the effective interest method.</p> <p>All direct loan origination fees and costs are deferred and recognized through the effective interest method.</p>
Impairment recognition of securities	<p>When there is an objective evidence of impairment, impairment loss shall be recognized.</p> <p>If, in a subsequent period, the amount of the impairment loss in available-for-sale security at fair value is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss can be reversed.</p>	<p>A significant or prolonged decline in the fair value of an equity security below acquisition cost is also objective evidence of impairment.</p> <p>Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss.</p>
Definition of derivative	<p>A derivative is a financial instrument or other contract having all the following characteristics:</p> <p>a. Needs underlying variables and units specified in contract (or payment rules).</p> <p>b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would have an effect to have a similar response to changes in market prices; and</p> <p>c. Able to be settled net in cash.</p>	<p>A derivative is a financial instrument or other contract having all three of the following characteristics:</p> <p>a. Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’);</p> <p>b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and</p> <p>c. It is settled at a future date.</p>

	<u>K-GAAP</u>	<u>IFRS</u>
Fair value adjustments of financial instruments	<p>When derivatives are exposed to counterparty's credit risk, credit value adjustments are measured in accordance with minimum percentage rate by asset quality category as prescribed in the Regulation on Supervision of Banking Business.</p> <p>Adjustment of bid or asking price: apply mid-market price.</p>	<p>When derivatives are exposed to credit risk, the credit risk of the company and of the counterparty are evaluated according to risk position.</p> <p>Apply bid or ask price by risk position in the valuation of a financial instrument.</p>
Provisions for membership rewards program	The estimated future costs of supplying the awards are recognized as provisions for credit card points.	Credit card points granted to customers as part of a sales transaction are measured at fair value and the recognition of revenue is deferred when they are granted. And they are recognized as revenue when redeemed by customers or expired.
Employee benefits	<p>Retirement benefits: Benefits are measured based on assumption that all eligible employees and directors, with at least one year of service, were to terminate their employment at the end of the reporting period.</p> <p>Short-term employee benefit: Compensation for unused annual leave is recognized as expense during the period when payment is made.</p>	<p>Post-employment benefit obligation: It is measured by an actuarial valuation method using the projected unit credit method.</p> <p>Short-term employee benefit: It is recognized as an expense during the period when services are provided and benefits are earned.</p>
Asset retirement obligation	No provisions are recognized for restoration cost of leased property.	The expected restoration costs for structures in leased office that are used for a business purpose are recognized as a liability. This amount is included as an acquisition cost, which shall be depreciated and management's estimate of the obligation is re-evaluated annually.
Classification of equity and liability	A financial instrument issued is classified as liability or equity by its legal form.	<p>A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity. However, if the issuer has the option to defer the payment indefinitely, it is classified as equity.</p> <p>A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset is classified as liability.</p>

	K-GAAP	IFRS
Offsetting financial assets and liabilities	A financial asset and a financial liability from standardized brokerage transaction can be offset and presented as the net amount in the statement of financial position.	A financial asset and a financial liability shall be offset and presented as the net amount in the statement of financial position when, and only when, an entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
Goodwill	Goodwill is amortized over a reasonable period from the beginning of the first annual period in which it arose, using straight-line method.	Goodwill acquired in a business combination shall not be amortized. An entity shall test goodwill for impairment at least annually.
Gains on a bargain purchase	Gains on a bargain purchase are reversed over the reasonable period from the beginning of the first annual period in which it was earned using straight-line method.	Gains on a bargain purchase are recognized in the period it occurs through profit or loss.
Deferred income tax	<p>Recognition of deferred income tax asset: deferred income tax asset shall be recognized if it is probable that the tax benefit is utilized.</p> <p>Determine whether deferred income tax asset or deferred income tax liability shall be recognized by temporary difference between the carrying amount of an investment asset in the statement of financial position of subsidiary and its tax base.</p>	<p>Recognition of deferred income tax asset: deferred income tax asset shall be recognized if it is probable that the tax benefit will be utilized.</p> <p>Recognize deferred income tax asset or deferred income tax liability in a way that temporary differences are realized.</p>
Foreign currency translation	<ul style="list-style-type: none"> • Foreign currency transaction: Assets or liabilities denominated in foreign currency for each statement of financial position presented shall be translated at the closing rate at the end of the reporting period, gains or losses arising from this recorded as loss on foreign currency exchange or gains on foreign currency exchange in profit or loss. • Foreign branches: Translation of financial statements in a foreign currency to Korean won for a branch of a reporting entity shall be translated at the closing rate at the end of the reporting period. 	<ul style="list-style-type: none"> • Foreign currency transaction: At each reporting date: <ul style="list-style-type: none"> a. Foreign currency monetary items shall be translated using the closing rate. b. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. c. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. • Foreign branches: If the presentation currency differs from the entity's functional currency, it shall be translated into a different presentation currency using the following procedures: <ul style="list-style-type: none"> a. Assets and liabilities for each statement of financial position presented shall be

	K-GAAP	IFRS
		translated at the closing rate at the end of the reporting period.
		b. Equity: historical rate
		c. Income and expenses for each income statement shall be translated at average exchange rates.
		d. All resulting exchange differences shall be recognized as other comprehensive income and on disposal of the foreign operation, the amount of the exchange differences shall be recognized in profit or loss as a reclassification adjustment when the gains or losses on disposal are recognized.
Derecognition of a financial asset	No applicable priority of requirements to derecognize a financial asset but an entity uses controls, risks and rewards altogether.	When an entity retains substantially all the risks, rewards and controls of ownership of transferred assets, financial assets shall not be derecognized.

46.1.2 The impact on the financial information of the Group as a result of adoption of IFRS

The impact on the Group's assets, liabilities, equity, profit, comprehensive income and cash flows as a result of adopting IFRS is as follows:

The details of adjustments to the assets, liabilities, and equity as of January 1, 2010:

	Assets	Liabilities	Equity
	(In millions of Korean won)		
K-GAAP	₩262,168,450	₩244,057,124	₩18,111,326
Adjustments:			
Consolidation	(2,365,486)	(2,290,995)	(74,491)
Allowances for loan losses	569,598	—	569,598
Provisions for unused commitments/guarantees	—	(304,647)	304,647
Interest income recognized by effective interest method	43,124	(24,810)	67,934
Impairment recognition of securities	(15,641)	—	(15,641)
Definition of derivative	(2,061)	8,837	(10,898)
Fair value adjustments of financial instruments	—	(7,938)	7,938
Provisions for membership rewards program	—	22,305	(22,305)
Employee benefits	—	81,812	(81,812)
Asset retirement obligation	2,295	43,070	(40,775)
Classification of equity and liability	—	(821,297)	821,297
Offsetting of financial assets and liabilities	118,672	118,672	—
Others	(354,870)	(298,332)	(56,538)
Tax effects	(5,110)	144,482	(149,592)
Total adjustments	(2,009,479)	(3,328,841)	1,319,362
IFRS	₩260,158,971	₩240,728,283	₩19,430,688

The details of adjustments to the assets, liabilities, equity, profit and comprehensive income as of and for the year ended December 31, 2010:

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
	(In millions of Korean won)		
K-GAAP	₩262,007,968	₩243,567,615	₩ 18,440,353
Adjustments:			
Consolidation	(4,255,827)	(4,198,470)	(57,357)
Allowances for loan losses	663,522	—	663,522
Provisions for unused commitments/guarantees	—	(113,612)	113,612
Interest income recognized by effective interest method	50,093	(6,061)	56,154
Impairment recognition of securities	(5,931)	—	(5,931)
Definition of derivative	462	(1,545)	2,007
Fair value adjustments of financial instruments	—	(7,628)	7,628
Provisions for membership rewards program	—	21,357	(21,357)
Employee benefits	—	71,006	(71,006)
Asset retirement obligation	3,148	49,460	(46,312)
Classification of equity and liability	—	(684,769)	684,769
Goodwill	89,673	—	89,673
Equity method investment securities	11,314	137	11,177
Offsetting of financial assets and liabilities	113,507	113,507	—
Other	105,020	155,924	(50,904)
Tax effects	(12,327)	137,771	(150,098)
Total adjustments	<u>(3,237,346)</u>	<u>(4,462,923)</u>	<u>1,225,577</u>
IFRS	<u>₩258,770,622</u>	<u>₩239,104,692</u>	<u>₩ 19,665,930</u>
		<u>Profit</u>	<u>Total comprehensive income</u>
		(In millions of Korean won)	
K-GAAP		₩ 100,183	₩ 212,245
Adjustments:			
Consolidation		47,074	47,074
Allowances for loan losses		93,683	93,683
Provisions for unused commitments/guarantees		(191,034)	(191,034)
Interest income recognized by effective interest method		(11,780)	(11,780)
Impairment recognition of securities		(3,426)	(3,426)
Definition of derivative		12,913	12,913
Fair value adjustments of financial instruments		(311)	(311)
Provisions for membership rewards program		948	948
Employee benefits		10,805	10,805
Asset retirement obligation		(5,537)	(5,537)
Classification of equity and liability		61,835	61,835
Goodwill		89,673	89,673
Equity method investment securities		12,251	7,533
Other		13,496	5,481
Tax effects		(10,864)	(10,864)
Total adjustments		<u>119,726</u>	<u>106,993</u>
IFRS		<u>₩ 219,909</u>	<u>₩ 319,238</u>

Summary of adjustments to cash flows

The cash flows have been reclassified in accordance with IFRS as follows:

- The cash flows related to deposits, which are the major income sources for financial companies and which cash flows were classified as financial activities under K-GAAP, were reclassified as operating activities under IFRS.
- The cash flows of restricted due from financial institutions, which were classified as investing activities under K-GAAP, were reclassified as operating activities under IFRS.
- The cash flows of derivatives applied with hedge accounting, which were classified as operating activities under K-GAAP, are reclassified in the same manner as the cash flows of the position being hedged.
- Additionally, the cash flows from acquisition and disposal of equity or debt instruments of other corporations for the purpose other than trading purpose, which were classified as operating activities under K-GAAP, are reclassified as investing activities under IFRS.

Except for items mentioned above, there are no other significant differences on the cash flow statements prepared in accordance with IFRS and K-GAAP.

46.2 Reconciliation of IFRS comparables from IFRS and U.S. GAAP

46.2.1 Main policy differences between U.S. GAAP and IFRS

	<u>U.S. GAAP</u>	<u>IFRS</u>
Consolidation	<p>For non-VIEs (variable interest entities), ownership of a majority voting interest, either directly or indirectly, leads to consolidation, unless control does not rest with the majority owners.</p> <p>A VIE is consolidated by the Group if it is deemed to have a controlling financial interest. A controlling financial interest exists where (i) the Group has the power to direct the activities of the VIE that most significantly impact such VIE's economic performance, and (ii) the Group is obligated to absorb losses of the VIE that are potentially significant to such VIE.</p>	<p>For operating companies, ownership of the majority of voting rights, either directly or indirectly, leads to consolidation. Potential voting rights are considered and in assessing whether potential voting rights contribute to control, the Group examines all facts and circumstances that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.</p> <p>Accordingly, KB Life Insurance Co., Ltd. which is not consolidated under U.S. GAAP is consolidated under IFRS considering the potential voting right.</p> <p>A SPE is consolidated by the Group where it is deemed to control it. Indicators of control are as follows:</p> <ul style="list-style-type: none">• the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the entity obtains benefits from the SPE's operation.

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Classification and fair value measurement of debt and equity securities

Classification and fair value measurement of equity securities

The equity securities that do not have readily determinable fair values or have sales restrictions exceeding one year are recorded as “Other securities” under “Investments” using the cost method. The cost method is used for those securities where the Group does not have significant influence over the investee, and under this method, there is no change to the cost basis unless there is an other-than-temporary decline in value.

Treatment of Foreign Exchange

Changes in the fair value of available for sale debt securities arising from changes in foreign exchange rates are recorded in accumulated other comprehensive income and transferred to income on disposal of the security.

Impairment of available-for-sale and held-to-maturity securities

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

- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an ‘autopilot’ mechanism, the entity has delegated these decision-making powers.
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Based on analysis of above factors, there are several changes in the consolidation scope of SPEs under IFRS.

Classification and fair value measurement of equity securities

The equity securities that do not have readily determinable fair values or have sales restrictions exceeding one year are recorded as available-for-sale and are measured at fair value subsequent to initial measurement unless those securities fall into financial assets measured at fair value through profit and loss.

Treatment of Foreign Exchange

Changes in the fair value of available-for-sale debt securities due to changes in foreign exchange rates are reflected in the income statement.

Impairment of available-for-sale and held-to-maturity securities

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are

U.S. GAAP

IFRS

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 Group 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 Group'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 Group 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 and held-to-maturity 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. 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 Group's cash flow projections using its base assumptions.

incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

If there is objective evidence that an impairment loss on held-to-maturity debt security carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. The impairment loss on held-to-maturity debt securities is directly deducted from the carrying amount. The amount of the loss is recognized in profit or loss as part of other operating income and expenses.

Classification of Foreign Exchange spot contracts

Foreign Exchange spot contracts are classified as derivatives since undelivered foreign exchange spot transactions are not considered to be regular way transactions.

Foreign Exchange spot contracts are not classified as derivatives, but as other assets and liabilities since the Group determines that undelivered foreign exchange spot transactions are regular way transactions.

	U.S. GAAP	IFRS
Interest income recognized by effective interest method	<p>Incremental transaction costs directly related to originating loans are included in the initial measurement of a loan. 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 the Group 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.</p>	<p>Only those costs associated with loan origination activities which are directly attributable and incremental to the origination of a loan are deferred together with the related fees and thus, included in the calculation of the effective yield.</p>
Loan impairment	<p><i>Allowances for loan losses</i></p> <p>The Group established the 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.</p> <p>For non-impaired commercial loans, retail loans and small balance homogeneous impaired loan portfolios, the Group established the allowance for loan losses based on a Migration Model by risk rating. 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 Group's historical delinquency and loan loss experience, and adjusted for qualitative factors, such as the current economic conditions in which the Group operates as well as current lending policies and procedures.</p>	<p><i>Allowances for loan losses</i></p> <p>A loan is considered to be impaired only if objective evidence indicates that one or more events ("loss events"), occurring after its initial recognition, have an effect on the estimated future cash flows of that asset. An impairment loss for financial assets measured at amortized cost is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate, and are recognized in profit or loss in that reporting period. The estimated future cash flows include only those credit losses that have been incurred at the time of the impairment loss calculation.</p> <p>The Group first considers whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets carried at amortized cost that are not individually significant, the assessment can be performed on an individual or collective (portfolio) basis. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The Group</p>

measures the amount of collective impairment loss applying a formula based approach (“PD/LGD model”) using Basel II risk components adjusted to be suitable for the concept of loan impairment under IFRS.

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

Meanwhile, the Group changed the methodology in determining allowances for loan losses from the Migration Model to the PD/LGD Model in transitioning to IFRS as it had compiled historical loan loss experience data to calculate credit risk capital requirement under Basel II. Also, the Group considered that PD/LGD Model would be more efficient and consistent with the general practice among financial institutions that have transitioned to IFRS in Korea and Europe.

Both the Migration Model and PD/LGD Model satisfy the requirements of U.S.GAAP and IFRS regarding the concept of incurred losses, however differences may arise in allowances for loan losses calculated under the U.S. GAAP Migration Model and the IFRS PD/LGD Model, respectively, due to differences in detailed methodology and accumulated data under each model.

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More specifically, under the Migration Model, loan loss rates are calculated based on the migration of the applicable loan among specified loan grade categories. However, under the PD/LGD Model, loan loss rates are calculated based on the probability of default. Specifically, under the U.S. GAAP Migration Model, loan loss rates were calculated based on the balance of the loans that have deteriorated in credit quality and thus have migrated into lower loan grade categories. In contrast, under the IFRS PD/LGD Model, loan loss rates (i.e., the probability of default) are calculated based on the number of the borrowers rather than the amount of the loans. Therefore, when a borrower's credit quality deteriorates, the impact on the loan loss rates under U.S. GAAP is more dependent upon the size of the loans to such borrower, while the size of the loans to such borrower does not impact the loan loss rates under IFRS. Accordingly, deterioration in the credit quality of certain borrowers with large loan balances would have a bigger negative impact on loan loss rates under U.S. GAAP compared to those under IFRS.

Charge-offs

Loans are charged off if they are deemed to be uncollectible.

Retail and credit card loans without collateral are charged off in full before they are more than 180 days past due if there is no realistic prospect of recovery.

Charge-offs

Loans are normally charged off, either partially or in full, when there is no realistic prospect of recovery of these amounts.

Provisions for unused commitments/
guarantees

The Group's policy maintains provisions for unused commitments and guarantees to absorb estimated probable losses related to these unfunded credit facilities. Provisions are estimated based on loss rates using a Migration Model to determine the collective impairment loss measurement for loans.

The Group's policy maintains provisions for unused commitments and guarantees to absorb estimated probable losses related to these unfunded credit facilities. Provisions are estimated through a formula-based approach ("PD/LGD Model") which uses Basel II risk components.

Revaluation of fixed assets (Property and equipment)

Revaluation of fixed assets is not permitted and depreciation expense should be based on historical cost.

The Group applies the revalued amount reported under K-GAAP as deemed cost for certain fixed assets. Gains and losses on disposal of those fixed assets, and ongoing depreciation, are recognized based on the revalued amount.

	U.S. GAAP	IFRS
Goodwill and intangible assets acquired in business combinations	<p>Goodwill is not amortized but is tested for impairment on an annual basis.</p> <p>Intangible assets which meet certain criteria are recognized in a business combination transaction and are amortized over their useful lives.</p>	<p>The Group has not applied IFRS 3, <i>Business Combinations</i> retrospectively to business combinations prior to the date of transition. The carrying amount of goodwill in the opening IFRS balance sheet is the carrying amount under K-GAAP at the date of transition to IFRS. Other intangible assets acquired in business combinations are included as part of goodwill under K-GAAP. Goodwill is not amortized but is tested for impairment on an annual basis.</p>
Hybrid capital investments	<p>A financial instrument is mandatorily redeemable if it embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event certain to occur. A term extension option, a provision that defers redemption until a specified liquidity level is reached, or a similar provision that may delay or accelerate the timing of a mandatory redemption does not affect the classification of a mandatorily redeemable financial instrument as a liability.</p>	<p>A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity. However, if the issuer has the option to defer the payment indefinitely, it is classified as equity.</p>
Uncertain Tax Positions	<p>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).</p>	<p>There is no clear guidance on recognizing and measuring the benefits of uncertain tax positions, therefore uncertain tax positions are recognized based on the guidance in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. Accordingly a liability related to an uncertain tax position is recognized if the uncertain tax position is probable of resulting in additional payment to the tax authorities. Meanwhile assets related to uncertain tax positions, caused by a claim for rectification or an appeal for refund claimed from the tax authorities related to additional assessments, are treated as contingent assets. Therefore tax expenses are recognized in the financial statements when the uncertain tax position is probable of resulting in additional payment to the tax authorities while tax benefits are recognized only when the tax refund is virtually certain.</p>

46.2.2 The impact on the financial information of the Group as a result of adoption of IFRS

The impact on the Group's assets, liabilities, equity, profit and comprehensive income as a result of adopting IFRS is as follows:

The details of adjustments to the assets, liabilities, and equity as of January 1, 2010 (transition date):

	Assets	Liabilities	Equity
	(In millions of Korean won)		
US-GAAP	₩253,855,432	₩236,279,157	₩17,576,275
Adjustments:			
Consolidation	2,618,184	2,566,606	51,578
Classification and fair value measurement of debt and equity securities	632,170	—	632,170
Classification of Foreign Exchange spot contracts	2,448,302	2,448,302	—
Interest income recognized by effective interest method	(300,319)	—	(300,319)
Loan impairment	91,140	—	91,140
Provisions for unused commitments/guarantees	—	(21,441)	21,441
Revaluation of fixed assets (Property and equipment)	1,735,752	—	1,735,752
Goodwill and intangible assets acquired in business combinations	(457,169)	—	(457,169)
Hybrid capital investments	—	(1,000,000)	1,000,000
Uncertain Tax Positions	(575,057)	—	(575,057)
Others	124,374	163,667	(39,293)
Tax effects	(13,838)	291,992	(305,830)
Total adjustments	6,303,539	4,449,126	1,854,413
IFRSs issued by the IASB	₩260,158,971	₩240,728,283	₩19,430,688

The details of adjustments to the assets, liabilities, equity, profit and comprehensive income as of and for the year ended December 31, 2010, are as follows:

	Assets	Liabilities	Equity
	(In millions of Korean won)		
US-GAAP	₩251,752,002	₩234,716,456	₩17,035,546
Adjustments:			
Consolidation	3,859,486	3,713,506	145,980
Classification and fair value measurement of debt and equity securities	445,310	—	445,310
Classification of Foreign Exchange spot contracts	1,299,467	1,299,467	—
Interest income recognized by effective interest method	(366,119)	—	(366,119)
Loan impairment	705,482	—	705,482
Provisions for unused commitments/guarantees	—	(30,934)	30,934
Revaluation of fixed assets (Property and equipment)	1,765,219	—	1,765,219
Goodwill and intangible assets acquired in business combinations	(452,444)	—	(452,444)
Hybrid capital investments	—	(1,000,000)	1,000,000
Uncertain Tax Positions	(27,310)	—	(27,310)
Others	(11,172)	134,705	(145,877)
Tax effects	(199,299)	271,492	(470,791)
Total adjustments	7,018,620	4,388,236	2,630,384
IFRSs issued by the IASB	₩258,770,622	₩239,104,692	₩19,665,930

	<u>Profit</u>	<u>Total comprehensive income</u>
	(In millions of Korean won)	
US-GAAP	<u>₩(592,524)</u>	<u>₩ (464,091)</u>
Adjustments		
Consolidation	18,266	33,193
Classification and fair value measurement of debt and equity securities	(133,975)	(186,860)
Interest income recognized by effective interest method	(65,800)	(65,800)
Loan impairment	614,342	614,342
Provisions for unused commitments/guarantees	9,493	9,493
Revaluation of fixed assets (Property and equipment)	29,467	29,467
Goodwill and intangible assets acquired in business combinations	4,725	4,725
Hybrid capital investments	64,600	64,600
Uncertain Tax Positions	547,747	547,747
Others	(154,133)	(164,295)
Tax effects	(122,299)	(103,283)
Total adjustments	<u>812,433</u>	<u>783,329</u>
IFRSs issued by the IASB	<u>₩ 219,909</u>	<u>₩ 319,238</u>

ARTICLES OF INCORPORATION OF KB FINANCIAL GROUP INC.

**CHAPTER I
GENERAL PROVISIONS**

Article 1 (Corporate Name)

The name of this company shall be “*KB Geumyung Jijoo*”, which shall be expressed in English as “KB Financial Group Inc.” (the “Company”).

Article 2 (Objective)

The objective of the Company shall be to engage in the following business activities:

1. Control over or management of companies engaged in financial businesses or other companies related closely to the operations of financial businesses;
2. Financial support for subsidiaries, etc. (as defined in Article 4, Paragraph 1, Sub-paragraph 2 of the Financial Holding Company Act, including subsidiaries, subsidiaries of such subsidiaries (a “Sub-subsidiary”) and other companies controlled by a Sub-Subsidiary, hereinafter the same).;
3. Financing for investment in subsidiaries or providing financial support to subsidiaries, etc.;
4. Provision of resources necessary for the business operations of subsidiaries, etc. , including administrative support for the joint development and sale of products with subsidiaries, etc.;
5. Functions entrusted by subsidiaries, etc. to support the business operations of subsidiaries, etc. including IT, legal and accounting functions;
6. Provision of intellectual property rights, including trademarks, patents, etc. to subsidiaries, etc.;
7. Other businesses permitted by laws and regulations; and
8. Any other businesses incidental or related to those in Items 1 through 7 of this Paragraph.

Article 3 (Location of Head Office and Establishment of Branches)

- (1) The Company shall have its head office in Seoul.
- (2) The Company may establish branches, liaison offices, representative offices or subsidiaries within or outside Korea, as it deems necessary, by the resolution of the Board of Directors.

Article 4 (Method of Public Notices)

Public notices of the Company shall be made in the Seoul Shinmun and Dong-a Ilbo, daily newspapers published in Seoul. However, if the Seoul Shinmun or Dong-a Ilbo is not available due to circumstances beyond the Company's control, the public notices of the Company shall be made in Chosun Ilbo and/or Joong-ang Ilbo in such order of preference.

**CHAPTER II
SHARES**

Article 5 (Total Number of Authorized Shares)

The total number of shares to be issued by the Company shall be one billion (1,000,000,000) shares.

Article 6 (Par Value per Share)

The par value per share to be issued by the Company shall be five thousand (5,000) Won.

Article 7 (Number of Shares Issued at the Time of Incorporation)

The total number of shares issued at the time of incorporation of the Company shall be three hundred and fifty six million, three hundred and fifty one thousand, six hundred and ninety three (356,351,693) shares of common stock.

Article 8 (Types of Shares)

- (1) The shares to be issued by the Company shall be shares in registered form. The shares shall be issued by a resolution of the Board of Directors.
- (2) The Company may issue common shares, shares with preferred dividend, non-voting shares, class shares with conversion rights ("convertible shares"), class shares with redemption rights ("redeemable shares") and shares with combination of all or any of the above classes (the foregoing shares, except common shares, shall be referred to as "class shares") in accordance with the terms of the Articles of Incorporation.

Article 9 (Share Certificates)

- (1) The share certificates of the Company shall be issued in the following eight (8) denominations: one (1), five (5), ten (10), fifty (50), one hundred (100), five hundred (500), one thousand (1,000) and ten thousand (10,000) shares.

- (2) The Company may split or consolidate share certificates at the request of shareholders.
- (3) The Company shall not issue share certificates in whole or in part of shares owned by a shareholder if such shareholder does not desire to receive share certificates corresponding to such shares.

Article 10 (Non-Voting Shares with Preferred Dividend)

- (1) The Company may issue non-voting shares with preferred dividend, and the number thereof shall not exceed one half (1/2) of the total number of issued and outstanding shares.
- (2) The dividends on non-voting shares with preferred dividend shall be no less than one percent (1%) per annum of the par value and the rate thereof shall be determined by the Board of Directors at the time of issuance, together with the type of the distributed properties and method of determination of the value of distributed properties and conditions on payment of dividends to the extent permitted under Articles 58 and 59 hereof; *provided, that* in the case of issuance of non-voting shares with preferred dividend whereby the rate of preferred dividends is adjustable, the Board of Directors shall determine the fact that the rate of preferred dividends are adjustable, the reasons for the adjustability, the base date for the adjustment and the method of adjustment at the time of issuance of such shares.
- (3) Non-voting shares with preferred dividend to be issued by the Company may be participating or non- participating, and accumulating or non- accumulating by the resolution of the Board of Directors.
- (4) Non-voting shares with preferred dividend have no voting rights. However, if a resolution not to distribute dividends on such shares is adopted, then the such shares shall be deemed to have voting rights from the next General Meeting of Shareholders immediately following the General Meeting of Shareholders at which such resolution not to distribute dividends on such shares is adopted, to the end of the General Meeting of the Shareholders at which a resolution to distribute dividends on such shares is adopted.
- (5) If the Company increases its capital by a shares offering or a bonus issue, the new shares to be assigned to non-voting shares with preferred dividend shall be common shares in the case of a shares offering and shall be the shares of same type in the case of a bonus issue.
- (6) Whether or not to specify the duration of non-voting shares with preferred dividend shall be determined by the resolution of the Board of Directors. If there is any duration of non-voting shares with preferred dividend, such duration shall be no less than one (1) year and no more than ten (10) years from the date of issuance, and such period of duration shall be determined by the Board of Directors at the time of issuance. If there is any duration of non-voting shares with preferred dividend, such shares shall be converted into common shares upon the expiration of the duration period. However, if the holders of such shares do not receive dividends entitled to them during the duration period, then the duration period shall be extended until such holders receive in full the dividends to which they are entitled. In such a case, Article 15 shall apply *mutatis mutandis* with respect to the distribution of dividends for new shares issued upon conversion.

Article 11 (Convertible Shares)

- (1) The Company may, pursuant to a resolution of the Board of Directors, issue shares that are convertible into common shares or class shares at the request of shareholders, in an amount not exceeding 20% of the total number of issued and outstanding shares of the Company.
- (2) The issue price of the new shares issued upon conversion shall be equal to the issue price of shares prior to conversion, and the number of shares to be issued upon conversion shall be equal to the number of shares prior to conversion.
- (3) The period during which a shareholder may request for conversion shall be determined by a resolution of the Board of Directors and shall be a period that commences not earlier than one (1) year, and ends no later than ten (10) years, from the issue date.
- (4) Article 15 shall apply *mutatis mutandis* with respect to the distribution of dividends for new shares issued upon conversion.

Article 12 (Redeemable Shares)

- (1) In case of issuance of non-voting shares with preferred dividend, the Company may, pursuant to a resolution of the Board of Directors, issue such non-voting shares with preferred dividend as redeemable shares that may be redeemed with profits at the discretion of the Company or such shareholder, in an amount not exceeding one half (1/2) of the total number of issued and outstanding shares of the Company.
- (2) The redemption price shall be the “issue price + additional amount”, where the additional amount shall be determined by a resolution of the Board of Directors at the time of issuance of such redeemable shares, considering various factors such as the dividend rate, market condition and general circumstances related to the issuance of such redeemable shares.
- (3) The redemption period for the redeemable shares shall be a period falling between (x) the day immediately following the close of the Ordinary General Meeting of Shareholders for the fiscal year in which the redeemable shares were issued and (y) one month after the close of the Ordinary General Meeting of Shareholders for the fiscal year in which the 20th anniversary of the issue date falls, as determined by a resolution of the Board of Directors; *provided, however, that* in the case of redeemable shares which are required to be redeemed by the Company upon the expiration of the redemption period, to the extent that any of the conditions listed below have occurred and remain outstanding, the redemption period shall be extended until such conditions have been resolved:
 1. The holders of the redeemable shares did not receive the preferred dividends to which they are entitled; or
 2. The Company is unable to redeem the redeemable shares during the redemption period due to a lack of sufficient profits.

- (4) The Company may redeem the redeemable shares in whole at once or in part; *provided that*, in the case of partial redemption, the Company may select the shares to be redeemed by lottery, or proportionally among each holder. Fractional shares resulting from proportional redemption shall not be redeemed.
- (5) In case of redeemable shares which the Company may redeem at its discretion, if the Company wishes to redeem the redeemable shares, the Company shall provide public notice specifying its intention to redeem, the redeemable shares to be redeemed and the fact that the share certificates must be presented to the Company within a period of no less than one (1) month. The Company must separately provide notice to the shareholders registered in the Company's registry of shareholders and the registered pledgees. Upon the expiration of the period mentioned above, the Company shall mandatorily redeem the redeemable shares. In case of redeemable shares which the Company may redeem at the request of shareholders, the shareholder requesting for redemption shall provide to the Company a notice specifying its intention to redeem and the redeemable shares to be redeemed within a period of no less than one(1) month.
- (6) At the time of issuance of redeemable shares, the Company may, pursuant to a resolution of the Board of Directors and to the extent permitted by the relevant laws and regulations, issue the redeemable shares as convertible shares as provided for in Article 11 hereof.

Article 13 (Preemptive Rights)

- (1) The shareholders of the Company shall have pre-emptive rights to subscribe for new shares to be issued by the Company in proportion to their respective shareholdings.
- (2) Notwithstanding the provision of Paragraph (1) above, the Company may allocate new shares to persons other than existing shareholders of the Company by the resolution of the Board of Directors, in any of the following instances:
 1. If the Company issues new shares for its capital increase by way of a general public offering, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company in accordance with the provisions of the Financial Investment Services and Capital Market Act (the "FSCMA");
 2. If the Company preferentially allocates new shares to members of the Employee Stock Ownership Association in accordance with the provisions of the FSCMA;
 3. If the Company issues new shares upon the exercise of stock options in accordance with the provisions of the Commercial Code, etc.;

4. If the Company issues new shares for the issuance of depositary receipts (“DR”), to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company in accordance with the relevant provisions of the FSCMA, etc.;
 5. If the Company issues new shares to foreign or domestic financial institutions or institutional investors, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company, where such investment is deemed to be necessary for the management or operations of the Company; or
 6. If the Company issues new shares to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company.
- (3) If the Company allocates new shares to persons other than existing shareholders of the Company pursuant to Paragraph (2) above, it shall give the notice to the shareholders or provide the public with respect to the matters set forth in Article 416, Items 1, 2, 2-2, 3 and 4 of the Korean Commercial Code no later than two (2) weeks before the payment date of such shares.
 - (4) In the case of issuance of new shares pursuant to each item under Paragraph (2) above, the type and total number of shares to be issued and the issue price, etc. shall be determined by a resolution of the Board of Directors.
 - (5) In the case a shareholder waives or loses the pre-emptive right to subscribe new shares, those shares not subscribed due to such waiver or loss of the pre-emptive right shall be disposed by a resolution of the Board of Directors. If fractional shares result from the allocation of new shares, such shares shall also be disposed of by a resolution of the Board of Directors.

Article 14 (Stock Options)

- (1) The Company may grant stock options to the officers and employees (including officers and employees of related companies as prescribed under Article 9 of the Enforcement Decree of the Commercial Code, hereinafter, the same) pursuant to the provisions of the Commercial Code and other relevant laws, by a special resolution of the General Meeting of Shareholders, to the extent not exceeding 15/100 of the total number of issued and outstanding shares of the Company; provided, however, that the Company may grant stock options to the officers and employees other than directors, by a resolution of the Board of Directors, to the extent not exceeding one percent (1%) of the total number of issued and outstanding shares, in case of such the Company must obtain the approval of shareholders at the nearest forthcoming General Meeting of Shareholders.

- (2) The persons who are entitled to receive such stock options shall be officers and employees of the Company prescribed under Paragraph (1) above who have contributed, or are capable of contributing, to the management or technical innovation of the Company, except for officers or employees in any of the following cases:
 1. The Largest Shareholder of the Company (as defined in Article 542-8, Paragraph 2(5) of the Commercial Code, hereinafter, the same) and Specially Related Persons thereof (as defined in Article 13, Paragraph 4 of the Enforcement Decree of the Commercial Code, hereinafter, the same), except for such persons who are deemed Specially Related Persons upon becoming officers (including an officer who is a non-standing officer of any affiliate company) of the Company;
 2. Major Shareholders (as defined in Article 542-8, Paragraph 2 (6) of the Commercial Code, hereinafter, the same) of the Company, and Specially Related Persons thereof, except for such persons who are deemed Specially Related Persons upon becoming officers (including an officer who is a non-standing officer of any affiliate company) of the Company; and
 3. Persons who become Major Shareholders of the Company through exercise of their stock options.
- (3) The shares to be issued upon the exercise of stock options shall be common shares or class shares.
- (4) The total number of shares to be given to one (1) officer or employee pursuant to the stock option shall not exceed 1/100 of the total number of shares issued and outstanding.
- (5) The exercise price per share for the stock option shall be determined in accordance with the relevant laws, such as the Commercial Code, etc. Adjustment of exercise price shall be determined likewise.
- (6) Stock options may be exercised during the period as decided by a resolution of the General Meeting of Shareholders or Board of Directors, at the time that the stock options are granted. Such exercise period shall fall between the date commencing from the 2nd anniversary of the date that a resolution was made to grant such stock options (as provided in Paragraph (1) above) until a date not later than the 7th anniversary of such resolution date.
- (7) A stock option is exercisable by a person who has served the Company for two (2) years or more from the date specified in Paragraph (1) above at which a resolution to grant such stock option was adopted. If the grantee's continuous service terminates by reason of the grantee's death, attainment of mandatory retirement age or for reasons other than by the fault of the grantee within two (2) years from the said date of resolution, the option may be exercisable within the exercise period.
- (8) In the case of granting the stock options, the Company may condition the exercise of the stock options upon achieving a detailed set of performance goals, and may cancel all or a portion of the stock options or postpone the exercise of stock options if such condition is not satisfied.

- (9) In the following instances, the Company may, by a resolution of the Board of Directors, cancel the stock options:
1. When the relevant officer or employee voluntarily resigns or retires from his or her position at the Company after receiving the stock option;
 2. When the relevant officer or employee inflicts material damage or losses on the Company due to his or her willful misconduct or negligence;
 3. When the Company cannot respond to the exercise of stock options due to its bankruptcy, dissolution, etc.; or
 4. When there occurs any other event for cancellation of the stock option pursuant to the stock option agreement.

Article 15 (Issuance Date of New Shares for the Purpose of Dividends)

In case the Company issues new shares through a share offering, bonus issue, stock options and/or stock dividend, the new shares shall be deemed to have been issued at the end of the fiscal year immediately prior to the fiscal year during which the new shares are issued for the purpose of distribution of dividends for such new shares.

Article 16 (Transfer Agent)

- (1) The Company shall designate a transfer agent for shares.
- (2) The transfer agent, its place of business and the scope of its agency business shall be determined by a resolution of the Board of Directors.
- (3) The shareholders registry or duplicates thereof shall be kept at the business place of the transfer agent and the alterations in the registry of shareholders, registration of creation and cancellation of pledges over shares, indication of trust assets and cancellation thereof with respect to shares, issuance of share certificates, receipt of reports and other related activities shall be conducted by the transfer agent.
- (4) The procedure provided for in Paragraph (3) above shall be regulated by the Regulation on Securities [*jeung kweon in Korean*] Transfer Agency Business of Transfer Agent, etc.

Article 17 (Report of Addresses, Names and Seals or Signatures of Shareholders and Others)

- (1) Shareholders and registered pledgees shall file their names, addresses, and seals or signatures with the transfer agent under Article 16 above.

- (2) Shareholders and registered pledgees who reside in a foreign country should report to the Company appointed agents and the addresses in Korea to which notices are to be sent.
- (3) The same shall apply in case of any changes in the matters referred to in Paragraphs (1) and (2) above.

Article 18 (Close of Shareholders' Registry and Record Date)

- (1) The Company shall suspend entries of alteration of the shareholders' registry from the 1st to the 31st of January of each year.
- (2) The shareholders registered in the shareholders' registry as of December 31 of each fiscal year shall be entitled to exercise the rights as shareholders at the Ordinary General Meeting of Shareholders convened for such fiscal year.
- (3) The Company may, if necessary for convening of an Extraordinary General Meeting of Shareholders or any other necessary cases, suspend any entry into the shareholders' registry with respect to shareholders' rights for a period not exceeding three (3) months as determined by a resolution of the Board of Directors, or cause the shareholders whose names appear in the shareholders' registry on a record date set by a resolution of the Board of Directors to exercise their rights as shareholders. If the Board of Directors deems it necessary, the Company may suspend any entry into the shareholders' registry and set the record date at the same time. The Company shall give at least two (2) weeks prior notice to the public.
- (4) Notwithstanding the provision of the last sentence of Paragraph (3) above, if prescribed otherwise by the Financial Holding Companies Act and other relevant laws and regulations, such laws may prevail.

**CHAPTER III
BONDS**

Article 19 (Issuance of Bonds)

- (1) The Company may, pursuant to a resolution of the Board of Directors, issue bonds.
- (2) The Board of Directors may delegate the Representative Director to issue bonds in such amount and type as determined by the Board of Directors no later than one (1) year from the date of delegation.

Article 19-2 (Issuance of Convertible Bonds)

- (1) The Company may issue to persons other than existing shareholders of the Company convertible bonds, by the resolution of the Board of Directors, to the extent that the total face value of the bonds shall not exceed two trillion five hundred billion (2,500,000,000,000) Won, in the following cases:

1. If the Company issues convertible bonds through a general public offering;
 2. If the Company issues convertible bonds to domestic or foreign financial institutions or institutional investors in order to raise the fund to meet urgent need; or
 3. If the Company issues convertible bonds to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The Board of Directors may determine that the convertible bonds referred to in Paragraph (1) may be issued on the condition that conversion rights will be attached to only a portion of the convertible bonds.
 - (3) The shares to be issued upon conversion shall be common shares or class shares. The conversion price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of convertible bonds.
 - (4) The conversion period shall commence on the date following three (3) months from the issue date of the convertible bonds and end on the date immediately preceding the redemption date thereof. However, the conversion period may be adjusted within the above period by a resolution of the Board of Directors.
 - (5) For the purpose of any distribution of dividends on the shares issued upon conversion and any payment of accrued interest on the convertible bonds, Article 15 hereof shall apply *mutatis mutandis*.

Article 20 (Bonds with Warrants)

- (1) The Company may issue to persons other than existing shareholders of the Company bonds with warrants, by the resolution of the Board of Directors, to the extent that the total face value of the bonds shall not exceed two trillion five hundred billion (2,500,000,000,000) Won, in the following cases:
 1. If the Company issues bonds with warrants through a general public offering;
 2. If the Company issues bonds with warrants to domestic or foreign financial institutions or institutional investors in order to raise the fund to meet urgent need; or

3. If the Company issues bonds with warrants to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The amount of new shares which can be subscribed for by the holders of the bonds with warrants shall be determined by the Board of Directors to the extent that the maximum amount of such new shares shall not exceed the face value of the bonds with warrants.
- (3) The shares to be issued upon exercise of warrants shall be common shares or class shares. The issue price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of bonds with warrants.
- (4) The warrant exercise period shall commence on the date following three (3) months from the issue date of the relevant bonds and end on the date immediately preceding the redemption date thereof. However, the warrant period may be adjusted within the above period by resolution of the Board of Directors.
- (5) For the purpose of any distribution of dividends on the shares issued upon exercise of warrants, Article 15 hereof shall apply *mutatis mutandis*.

Article 21 (Issuance of Participating Bonds)

- (1) The Company may issue participating bonds to persons other than existing shareholders by the resolution of Board of Directors; to the extent that the total face value of the bonds shall not exceed one trillion (1,000,000,000,000) Won, in the following cases:
 1. If the Company issues participating bonds through a general public offering;
 2. If the Company issues participating bonds to domestic or foreign financial institutions or institutional investors in order to raise the fund to meet urgent need; or
 3. If the Company issues participating bonds to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The matters about participation in any distribution of dividends on bonds issued pursuant to Article (1) above shall be determined by the resolution of the Board of Directors on the basis of the distribution of dividends on common shares at the time of issuance.

Article 22 (Applicable Provisions for the Issuance of Bonds)

The provisions of Articles 16 and 17 hereof shall be applicable to the issuance of bonds.

CHAPTER IV
GENERAL MEETINGS OF SHAREHOLDERS

Article 23 (Convening of General Meetings of Shareholders)

- (1) General Meetings of Shareholders of the Company shall be of two types: (i) Ordinary and (ii) Extraordinary.
- (2) The Ordinary General Meeting of Shareholders shall be held within three (3) months after the end of each fiscal year and the Extraordinary General Meeting of Shareholders may be convened whenever deemed necessary.

Article 24 (Authority to Convene)

- (1) The Representative Director shall convene the General Meeting of Shareholders in accordance with a resolution by the Board of Directors, unless otherwise prescribed by other laws and ordinances.
- (2) If the Representative Director is unable to perform his/her duties, Article 41, Paragraph (2) shall apply *mutatis mutandis*.

Article 25 (Personal or Public Notices for Convening)

- (1) Written or electronic notice of the General Meeting of Shareholders of the Company shall state the date, time, place of the Meeting, the purposes for which the Meeting has been called. The written or (with the consent of each shareholder) electronic notice shall be sent to all shareholders at least two (2) weeks prior to the date set for such Meeting.
- (2) The written or electronic notice of a General Meeting of Shareholders under Paragraph (1) above to be given to shareholders holding one-hundredth (1/100) or less of the total issued and outstanding voting shares may be substituted by either giving public notice of the convening of the General Meeting of Shareholders in the Seoul Shinmun and the Dong-a Ilbo, which are published in the city of Seoul and at least two (2) notices are made in the said publications two (2) weeks prior to the date set for such Meeting or by giving such public notice through the electronic disclosure system operated by the Financial Supervisory Commission or the Korea Exchange; provided that, if the Seoul Shinmun and the Dong-a Ilbo are not available due to circumstances beyond the Company's control, the public notices may be given in the Chosun Ilbo and the Joongang Ilbo, in such order.

Article 26 (Place of Meeting)

The General Meeting of Shareholders shall be held in the city where the head office is located or any other places adjacent thereto as required.

Article 27 (Chairman of the General Meeting of Shareholders)

The person who has the authority to convene the General Meeting of Shareholders under Article 24 above shall be the Chairman of the General Meeting of Shareholders.

Article 28 (Chairman's Authority to Maintain Order)

- (1) The Chairman of the General Meeting of Shareholders may order persons who purposely speak or act in a manner that disrupts or inhibits the deliberations of the General Meeting of Shareholders or who otherwise disturb the public order of the General Meeting of Shareholders to desist, retract his/her remarks, or to leave the place of meeting.
- (2) The Chairman of the General Meeting of Shareholders may restrict the length and frequency of the speech of shareholders if it is necessary for the orderly conduct of the General Meeting of Shareholders.

Article 29 (Voting Rights)

- (1) Each shareholder shall have one (1) vote for each share he/she owns.
- (2) If the Company, any of its parent company and subsidiary or subsidiaries hold shares exceeding one tenth (1/10) of the total number of issued and outstanding shares of another company, the shares of the Company held by such other company shall not have voting rights.

Article 30 (Split Voting)

- (1) If any shareholder who holds two (2) or more votes wishes to split his/her votes, he/she shall give written or electronic notice to the Company of such intent and the reasons therefor no later than three (3) days before the date set for the General Meeting of Shareholders.
- (2) The Company may refuse to allow the shareholder to split his/her votes unless the shareholder acquired the shares in trust or otherwise holds the shares for and on behalf of some other person.

Article 31 (Voting by Proxy)

- (1) A shareholder may exercise his/her voting rights by proxy.
- (2) In the case of Paragraph (1) above, the proxy holder shall file with the Company the documents (power of attorney) evidencing the authority to act as a proxy before the General Meeting of Shareholders.

Article 32 (Method of Resolution of the General Meeting of Shareholders)

Except as otherwise provided in the applicable laws and regulations, all resolutions of the General Meeting of Shareholders shall be adopted by the affirmative vote of a majority of the shareholders present; provided that such votes shall, in any event, represent not less than 1/4 of the total number of issued and outstanding shares.

Article 33 (Exercise of Voting Rights in Writing)

- (1) If the method of written resolutions at the General Meeting of Shareholders is adopted by the resolution of the Board of Directors, at which the convening of the General Meeting of Shareholders is determined, the shareholders may exercise their voting rights in writing without attending the meeting.
- (2) In the case of Paragraph (1), the Company shall send the documents and references necessary for the exercise of the voting rights, together with the convening notice of the General Meeting of Shareholders.
- (3) If a shareholder intends to exercise his/her voting rights in writing, the shareholder shall fill in and submit to the Company the documents referred to in Paragraph (2) one day before the date set for the General Meeting of Shareholders.

Article 34 (Minutes of the General Meetings of Shareholders)

The substance of the course of the proceedings of the General Meeting of Shareholders and the results thereof shall be recorded in the minutes and shall be preserved at the head office and branches of the Company, after being affixed with the names and seal impressions or signatures of the Chairman and the Directors present.

**CHAPTER V
DIRECTORS AND BOARD OF DIRECTORS**

Article 35 (The Number of Directors)

- (1) The Company shall have not more than thirty (30) Directors.
- (2) The number of Non-executive Directors shall be more than one half (1/2) of the total number of Directors and five (5) or more.

Article 36 (Election of Director)

- (1) The Directors shall be elected at the General Meeting of Shareholders.
- (2) Non-executive Directors shall be recommended by the Non-executive Directors Candidate Nomination Committee pursuant to Article 47 and elected at the General Meeting of Shareholders.

Article 37 (Qualification of Non-executive Directors)

- (1) Any person falling within the scope of any of the following cannot become a non-executive director of this Company and such person shall, if found to fall within the scope of any of the following after becoming a non-executive director, lose his/her office as non-executive director:
 1. Any person to whom any sub-paragraph of Article 40, Paragraph 4 of the Financial Holding Company Act applies.
 2. Any person serving as a non-executive director, non-standing director or non-standing statutory auditor of any financial company that is not an affiliate of the Company
- (2) This Company shall appoint as non-executive directors persons who are sufficiently well-informed or experienced in a related field of study, including finance, economics, management, law, accounting, journalism, etc. and who meet one of the following qualifications; provided, however, that this Paragraph is not applicable to a person who is appointed as non-executive director after being nominated as a candidate therefor pursuant to Article 542-8, Paragraph 5 of the Korean Commercial Code.
 1. A professional manager or executive officer (a qualified person who is or used to be an executive officer or of the same or higher rank in a legal entity subject to external audit pursuant to the “Act on External Audit of Stock Companies” or any foreign laws equivalent thereto).
 2. A lawyer or certified public accountant with at least five (5) years of work experience in the relevant field.
 3. A person holding a masters or higher degree in finance, economics, management, law or accounting with at least five (5) years of experience at a university or a research institution as a researcher or an associate professor or in a higher position in the relevant field.
 4. A person who has served in financial companies for at least ten (10) years.
 5. A person who has served at a “listed” company (within the meaning of the Financial Investment Services and Capital Markets Act) in the areas of finance or accounting as an officer for at least five (5) years or as an officer or employee for at least ten (10) years.

6. A person with at least five (5) years of work experience in finance or accounting matters or in overseeing such matters at a central government agency, local government agency, “public agency” as defined under the Act on the Management of Public Agencies, the Financial Supervisory Service, the Korea Exchange under the Financial Investment Services and Capital Markets Act or an “agency related to the financial investment business” (excluding organizations related to financial investment) under Article 9, Paragraph 17 of the Financial Investment Services and Capital Markets Act.
7. A person with at least five (5) years of work experience in finance or accounting matters at an agency subject to inspection pursuant to Article 38 of the Act on the Establishment of Financial Services Commission (or a foreign equivalent thereto).
8. Any other person with sufficient expert knowledge or work experience, who is recognized by the Board of Directors or the Non-Executive Director Nominating Committee as falling within the scope of any of paragraphs 1 to 7 above.

Article 38 (Term of Director)

- (1) A Director shall be appointed to a term of office of three (3) years, and may be re-appointed; provided, that such term may be otherwise determined at the General Meeting of Shareholders to the extent it does not exceed three (3) years.
- (2) If the term of office as set forth in Paragraphs (1) and (4) expires after the end of a fiscal year but before the Ordinary General Meeting of Shareholders convened in respect of such fiscal year, the term of office shall be extended up to the close of such General Meeting of Shareholders.
- (3) Unless otherwise prescribed by General Meeting of Shareholders, the term of office of the Director shall commence from the date of appointment.
- (4) Notwithstanding Paragraph (1), the term of office of a non-executive director shall be two (2) years and shall be one (1) year if the non-executive director is being re-appointed; provided, however, that the length of such term may be otherwise determined at the General Meeting of Shareholders so long as such term does not exceed two (2) years (or one (1) year in the case of re-appointment).
- (5) A non-executive director cannot serve a term of office for more than five (5) years on a consecutive basis except in the case where the term of office is extended pursuant to Paragraph (2) above.
- (6) If a non-executive director is re-appointed within two (2) years from the expiry of the term of office, the non-executive director shall be deemed to serve the position on a consecutive basis.

- (7) The term of office set forth in above Paragraph (5) shall be calculated by taking into consideration the term of office served as a non-executive director for subsidiaries, etc. of this Company (but only with respect to such non-executive director of a subsidiary, etc. who is appointed as a non-executive director of this Company within two (2) years from the expiry of the term of office), except for the term of office served as a non-executive director for a company that is not an affiliate of this Company. However, the terms of office of non-executive directors of companies that became subsidiaries, etc. of the Company at the time the Company was approved to become a financial holding company pursuant to Article 3 of the Financial Holding Company Act shall be counted for the calculation of the terms of office hereunder.

Article 39 (By-election of Directors)

- (1) In the event of any interim vacancy in the office of the Director, a substitute Director shall be elected at the General Meeting of Shareholders; *provided, however, that* the foregoing shall not apply if the number of remaining Directors satisfies the requirement Article 35 hereof and such vacancy does not cause any difficulties in business operation of the Company.
- (2) If the number of Non-executive Directors does not satisfy the requirement referred to in Article 35 due to the death or resignation of Non-executive Directors, etc., Non-executive Directors shall be elected to fill the vacancy at the first General Meeting of Shareholders to be held after such occurrence so as to cause the number of Non-executive Directors to be such prescribed number.

Article 40 (Appointment of Representative Director, et al.)

The Company may appoint several Representative Directors, including one appointed as the Chairman, by the resolution of the Board of Directors.

Article 41 (Duties of Directors)

- (1) The Representative Director shall represent the Company and shall perform the matters resolved by the Board of Directors and oversee the business of the Company as determined by the Board of Directors.
- (2) Directors who are not Non-executive Directors shall assist the Representative Director, and divide and perform their respective duties as may be determined by the Representative Director. In the case of an absence of, or an accident caused to, the Representative Director, the Directors shall take his/her place as the Representative Director in accordance with their order of priority as determined by the Board of Directors.

Article 42 (Director's Obligation)

- (1) Directors shall attend the meeting of the Board of Directors and shall perform their respective duties faithfully. During his/her service period and after his/her retirement, Directors shall not disclose trade secrets of the Company obtained in the course of his/her performance of duties.

- (2) If any Director finds any facts which may cause substantial losses to the Company, such Director shall promptly report to the Audit Committee thereof.

Article 43 (Composition and Convening of the Meeting of Board of Directors)

- (1) The Board of Directors shall consist of Directors, and shall resolve important matters regarding the business affairs of the Company.
- (2) The Chairman of the Board of Directors shall be elected from among the non-executive directors in accordance with the resolution of the Board of Directors on an annual basis.
- (3) The Meeting of the Board of Directors shall be convened at least once per fiscal quarter.
- (4) The Meeting of the Board of Directors shall be convened by giving notice to each Director at least three (3) days prior to the scheduled date of such Meeting. In the absence of or if accidents are caused to the Chairman of the Board of Directors, the Director(s) as determined by the Board of Directors shall take his/her place as the Representative Director. However, the said notice period may be shortened in urgent cases and the said procedures may be omitted with the consent thereon of all Directors.
- (5) Matters to be resolved by the Board of Directors, and other matters regarding the operation of the Board of Directors shall be determined in accordance with the resolution of the Board of Directors.

Article 44 (Method of Resolution)

- (1) The quorum for the Board of Directors shall be the presence of at least more than one half (1/2) of the Directors, and all resolutions of the Board of Directors shall require the affirmative votes of a majority of the Directors present at the meeting of the Board of Directors; provided that amendment of the Articles of Incorporation, appointment of the Representative Director and other matters requiring the resolution of General Meeting of Shareholders shall be adopted by the affirmative vote of a majority of the Directors in office; provided, further, that any matter falling under Articles 397-2 (Prohibition on Usurpation of Corporate Opportunity) and 398 (Prohibition on Transaction between Director and Company) of the Korean Commercial Code shall be adopted by the affirmative vote of equal to or more than two-thirds(2/3) of the Directors in office.
- (2) The Board meetings may be held by means of an audio conference that can simultaneously transmit and receive sound, whereby all or part of the Directors may participate in the meeting and vote on matters at the same time. In such case, a Director participating in the meeting by such arrangement shall be considered present at the meeting.

- (3) Any Director who has an interest in the matters to be resolved at the Meeting of the Board of Directors shall not be entitled to vote at such Meeting.

Article 45 (Minutes of the Meeting of Board of Directors)

- (1) The proceedings of a Board meeting shall be recorded in the minutes.
- (2) The agenda, proceedings, resolutions, dissenting director (if any) and his/her reasons for dissenting of a Board meeting shall be recorded in the minutes on which the names and seals of the Directors present at the meeting shall be affixed or signed by them.

Article 46 (Power and Obligation of the Board of Directors to the Wholly-Owned Subsidiary, etc.)

- (1) The Board of Directors shall retain the power to give advice, corrective recommendation and request for submission of materials with respect to the matters of management of the subsidiary of which the total issued and outstanding shares are owned by the Company (“Wholly-Owned Subsidiary”), and the Sub-subsidiary company of which the total issued and outstanding shares are owned by the Wholly-Owned Subsidiary (“Wholly-Owned Sub-subsidiary”, and “Wholly-Owned Subsidiary, etc.” together with Wholly-Owned Subsidiary).
- (2) When exercising the power under Paragraph (1) above, the Board of Directors shall be liable for the followings:
 1. The Board of Directors shall not hinder the soundness of management, consumer’s right and the sound order of financial transactions;
 2. During his/her service period and after his/her retirement, Directors shall not disclose trade secrets of the Wholly-Owned Subsidiary, etc. obtained in the course of his/her performance of duties; and
 3. The Board of Directors shall not violate the relevant laws and regulations.
- (3) The Board of Directors shall set up the standards of internal compliance in accordance with the relevant laws and regulations such as Financial Holding Companies Act in order to supervise direct and indirect subsidiaries of the Company, and may appoint the compliance officer to inspect compliance of such standards.

Article 47 (Committees)

- (1) The Company may establish various committees including following committees within the Board of Directors as determined by the resolution of the Board of Directors for the purposes of smooth operation of the Board of Directors and effective management of the Company:

1. Board Steering Committee;
 2. Management Strategy Committee;
 3. Risk Management Committee;
 4. Evaluation and Compensation Committee;
 5. Non-executive Director Nominating Committee; and
 6. Audit Committee Member Nominating Committee.
- (2) Matters regarding the composition, power, operation, etc. of each committee shall be determined by the resolution of the Board of Directors.
- (3) Article 43, Paragraph (4), Article 44 and Article 45 shall apply *mutatis mutandis* with respect to the committees.

Article 48 (Remuneration for Directors, etc.)

The remuneration and severance pay for the Directors shall be determined by a resolution of the General Meeting of Shareholders.

Article 49 (Consultants)

The Company may retain consultants, honorary directors, advisors, etc. by a resolution of the Board of Directors.

**CHAPTER VI
AUDIT COMMITTEE**

Article 50 (Constitution of Audit Committee)

- (1) The Company shall establish an Audit Committee, as prescribed by the Financial Holding Companies Act and other applicable laws and regulations instead of an auditor.
- (2) The Audit Committee of the Company shall consist of three (3) or more Non-executive Directors, who are recommended by the Audit Committee Member Nominating Committee, which is composed of all Non-executive Directors under Article 41-2 of the Financial Holding Companies Act.
- (3) Two-thirds (2/3) of the members of the Audit Committee shall be elected from the Non-executive Directors. The members of the Audit Committee who are not Non-executive Directors shall satisfy the requirements of Article 41, Paragraph (3) of the Financial Holding Companies Act.

- (4) The Members of the Audit Committee shall have any of the following qualifications and not less than one of the members of the Audit Committee shall be a professional in financial affairs pursuant to the relevant laws:
 1. A licensed person such as lawyer, CPA with at least 5-year work experience in the licensed business;
 2. A person who has been a researcher in the institutions or a full-time instructor in colleges, having a master's degree in law or economics-business with at least 5-year work experience;
 3. A person who has been served as a professional in accounting, internal compliance, audit, Information Technology (IT) and so on with at least 10-year work experience in finance related organizations;
 4. A person who has served as an executive official for at least 5-year, or as an employee who has a specific and practical knowledge in economics, business, law, accounts and the like for at least 10-year in Stock listed corporations; or
 5. A person who is recognized as being equivalently qualified as those listed in items 1 through 4 by the Board of Directors or General Meeting of the Shareholders.
- (5) The Chairman of the Audit Committee shall be elected among the members who are Non-executive Directors by a resolution of the Audit Committee.
- (6) If the number of members of the Audit Committee does not satisfy the requirement referred to Paragraph (3) due to the death or resignation of members or any other reason, the members shall be elected to fill the vacancy at the first General Meeting of Shareholders to be held after such occurrence so as to cause the number of members to be such prescribed number.

Article 51 (Duties of Audit Committee)

- (1) The Audit Committee shall audit Directors' performance of their duties and may request business reports from any Director, or investigate the business and status of property of the Company.
- (2) The Audit Committee may, if necessary, request to call the Board meeting by submitting, in writing, a purpose and reason for such meeting to a person authorized to convene the Meeting of the Board of Directors.
- (3) The Audit Committee may convene the Meeting of the Board of Directors in the event a person authorized to convene the Meeting of the Board of Directors fails to convene such meeting without delay according to Paragraph (2) above.

- (4) The Audit Committee shall inspect the matters listed in the agenda of, and documents submitted to, a General Meeting of Shareholders to investigate whether there is any event violating the laws or these Articles of Incorporation and the Chairman of the Audit Committee shall express his/her opinion to the General Meeting of Shareholders.
- (5) The Audit Committee may request the Board of Directors to convene the Extraordinary General Meeting of Shareholders by submitting documents stating the agenda and reasons for convening such meeting.
- (6) The Audit Committee may request business reports from any subsidiary of the Company when it is necessary to perform its duties. In this case, if such subsidiary does not report to the Audit Committee immediately or the Audit Committee needs to verify the contents of the reports, it may investigate the status of business and the financial condition of the subsidiary.
- (7) The Audit Committee shall retain the power to audit the status of the operation and property and to request the submission of materials in relation to the managerial matters of the Wholly-Owned Subsidiary, etc. and with respect to the exercise of such power Article 46 Paragraph (2) shall apply *mutatis mutandis* to the liability of the Audit Committee.
- (8) In the selection and appointment of an external auditor, the Audit Committee shall approve it.
- (9) In addition to the matters referred to in Paragraphs (1) through (8), the Audit Committee shall carry out the matters delegated by the Board of Directors.
- (10) The Board of Directors shall not overrule the decisions of the Audit Committee.
- (11) The Audit Committee may request professional support at the Company's expenses.

Article 52 (Audit Committee's Record)

The Audit Committee shall record the substance and results of its audit in the Audit Committee's record, on which the name and seal of the Audit Committee Member who has performed such audit shall be affixed or shall be signed by such Audit Committee Member.

**CHAPTER VII
ACCOUNTING**

Article 53 (Fiscal Year)

The fiscal year of the Company shall begin on January 1 and end on December 31 of each year.

Article 54 (Preparation and Maintenance of Financial Statements and Business Report, etc.)

- (1) The Representative Director of the Company shall prepare the following documents to be submitted to the Ordinary General Meeting of Shareholders, together with supplementary data for items 1 through 3 and business reports, and have such documents audited by the Audit Committee no later than six (6) weeks before the date of the Ordinary General Meeting of Shareholders:
 1. balance sheet(statements of financial position referred to in Article 1-2 of the Act on the External Audit of Stock Companies);
 2. statements of profit and loss; and
 3. other documents which record the Company's financial condition and business performance as set forth by the Enforcement Decree of the Korean Commercial Code; and
 4. consolidated financial statements for items 1 through 3 as set forth by the Enforcement Decree of the Korean Commercial Code.
- (2) The Audit Committee shall submit an audit report to the Representative Director no later than one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (3) The Representative Director shall keep on file copies of the documents described in Paragraph (1) above, together with the business report and Audit Committee's audit report thereon, at the head office of the Company for five (5) years, and certified copies of all of such documents at the branches of the Company for three (3) years, beginning from one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (4) Upon obtaining approval for the documents mentioned in Paragraph (1) above from the General Meeting of Shareholders, within three (3) months from the end of the relevant fiscal year, the Representative Director shall make a public notice of the balance sheet(statements of financial position referred to in Article 1-2 of the Act on the External Audit of Stock Companies), income statement, consolidated financial statements pursuant to the Act on External Audit of Stock Companies which are designated by the FSC and the opinion of an external auditor. In doing so, notwithstanding the provisions of Article 4, the Company may use the means of electronic document as prescribed by Article 55-2 of the Financial Holding Companies Act.

Article 55 (Appointment of External Auditor)

The Company shall appoint the external auditor with the approval of the Audit Committee, and shall report such appointment to the Ordinary General Meeting of Shareholders to be held during the fiscal year in which he/she is appointed or to the shareholders as of the latest closing date of the shareholders' registry in writing or in electronic form, or shall give a public notice regarding such appointment via the Company's website and make such notice available until the end of the relevant fiscal year with respect to which the audit is conducted.

Article 56 (Disposal of Profits)

The Company shall dispose of the unappropriated retained earnings as of the end of each fiscal year as follows:

1. earned surplus reserves;
2. other statutory reserves;
3. dividends;
4. temporary reserves; and
5. other appropriations of earned surplus.

Article 57 (Retirement of Shares)

- (1) The Company may retire the shares within the scope of profits attributable to the shareholders by the resolution of the Board of Directors.
- (2) In order to retire the shares pursuant to Paragraph (1), the Board of Directors shall adopt the following resolutions:
 1. Types and the total number of shares to be retired;
 2. The total amount of shares to be acquired for retirement; and
 3. Acquisition period or retirement date (the acquisition period or retirement date shall be before the Ordinary General Meeting of Shareholders to be held first after the resolution of such retirement).
- (3) In case of acquisition of shares for the purpose of retirement pursuant to Paragraph (1), the following criteria shall be followed:
 1. In the case of acquisition of shares for the purpose of retirement, such acquisition shall be made in accordance with the method and criteria as prescribed in the relevant laws, such as the FSCMA, etc.
 2. Total price of the shares to be acquired for the purpose of retirement shall not be more than the amount as prescribed in the relevant laws, such as the FSCMA, etc. within the scope available for dividend as at the end of such fiscal year pursuant to Article 462, Paragraph (1) of the Commercial Code.

- (4) When the shares are retired pursuant to Paragraph (1), the matters referred to in each Subparagraph of Paragraph (2) and the results of retirement shall be reported to the Ordinary General Meeting of Shareholders to be held first after the resolution of such retirement.

Article 58 (Dividends)

- (1) Dividends may be distributed in cash or stock.
- (2) In case the dividends are to be distributed in stock and the Company has class shares, the stock dividend distribution may be made in shares of different types by a resolution of the General Meeting of Shareholders.
- (3) Dividends of Paragraph (1) above shall be paid to the shareholders registered in the Company's registry of shareholders or the registered pledgees as of the last day of each fiscal year.

Article 59 (Quarterly Dividends)

- (1) The Company may distribute cash dividends to the shareholders as of the end of March, June or September by resolution of the Board of Directors.
- (2) Quarterly Dividends provided under Paragraph (1) shall be decided by a resolution of the Board of Directors, provided that the specific method and limit, etc. of quarterly dividends shall satisfy the relevant laws and regulations including the FSCMA, etc.
- (3) In case the Company issues new shares through a shares offering, bonus issue, stock dividend, conversion of convertible bonds, exercise of warrant of bond with warrants or stock options, the new shares shall be deemed to have been issued at the end of the fiscal year immediately prior to the fiscal year during which the new shares are issued with respect to distribution of dividends for such new shares.
- (4) In case of distributing quarterly dividends, the same dividend rate as that of common shares of the Company shall be applied to non-voting shares with preferred dividend under Article 10 unless otherwise determined at the time of issuance.

Article 60 (Expiration of Right to Payment of Dividends)

- (1) The right to demand payment of dividends shall extinguish by prescription if not exercised within five (5) years.
- (2) The dividends, for which the right has been extinguished under Paragraph (1) above, shall be kept by the Company.

Article 61 (Supplementary Provision)

Matters not specified in these Articles of Incorporation shall be determined by the resolution of the Board of Directors or the General Meeting of Shareholders, or in accordance with the Commercial Code or other laws.

ADDENDUM(2008.9.29)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective from the date of registration of incorporation.

Article 2 (Initial Fiscal Year after Incorporation)

Notwithstanding the provision of Article 53, the initial fiscal year of the Company after incorporation shall be from the date of incorporation to December 31, 2008.

Article 3 (Initial Transfer Agent after Incorporation)

The initial transfer agent of the Company after incorporation shall be Korea Securities Depository.

Article 4 (Appointment of Initial Director, Representative Director, et al. after Incorporation)

Notwithstanding the provisions of Articles 36 and 39, the initial Director and the initial Representative Director after incorporation shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted.

Article 5 (Term of Office of Initial Director after Incorporation)

Notwithstanding the provisions of Articles 38, the term of office of the initial Director after incorporation shall be determined, to the extent it does not exceed three (3) years, at the General Meetings of Shareholders of the Stock Transfer Companies at which the stock transfer plan is approved.

Article 6 (Appointment of Initial Non-executive Director after Incorporation)

Notwithstanding the provision of Article 36, Paragraph (2), the initial Non-executive Director of the Company after incorporation shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted, without recommendation of the Non-executive Director Candidate Nomination Committee.

Article 7 (Appointment of Initial Members of Audit Committee after Incorporation)

Notwithstanding the provision of Article 50, Paragraph (2), the initial members of Audit Committee shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted, without recommendation of the Audit Committee Member Nominating Committee.

Article 8 (Remuneration of Directors in Initial Fiscal Year after Incorporation)

Notwithstanding the provision of Article 48, the remuneration of Directors in initial fiscal year after incorporation shall be determined at the first meeting of the Board of Directors after incorporation, to the extent not exceeding two (2) billion Won.

Article 9 (Stock Transfer Companies)

In order to incorporate the Company, the following Stock Transfer Companies hereby prepare these Articles of Incorporation and affix their respective names and seals hereon on August 25, 2008.

Kookmin Bank
9-1, 2ga, Namdaemun-ro, Jung-gu, Seoul
Representative Director President, Chung Won Kang (Seal)

KB Real Estate Trust Co., Ltd.
15~16th Floor, Poonglim Building, 823 Yeoksam-dong, Gangnam-gu, Seoul
Representative Director CEO, Jeong Min Kim (Seal)

KB Business Investment Co., Ltd.
9th Floor, Shinyoung Building, 68-5 Cheongdam-dong, Gangnam-gu, Seoul
Representative Director CEO, Nam Sik Yang (Seal)

KB Credit Information Co., Ltd.
12th Floor Korea Exchange Building, 33 Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Sung Bok Park (Seal)

KB Data Systems Co., Ltd.
5,6th Floor, Korea Exchange Building, 33 Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Yeon Geun Jung (Seal)

KB Asset Management Co., Ltd.
25th Floor, Good Morning Tower 23-2, Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Won Ki Lee (Seal)

KB Futures Co., Ltd.
9th Floor, HP Building 23-6, Yoido-dong Youngdeungpo-gu, Seoul, Korea
Representative Director CEO, Kyu Hyung Jung (Seal)

KB Investment Securities Co., Ltd.
21, 22nd Floor, Good Morning Tower 23-2, Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Myung Han Kim (Seal)

ADDENDUM(2009.3.27)

Article 1 (Effective Date)

The above amendments to the Articles of Incorporation shall take effect from March 27, 2009.

ADDENDUM(2010.3.26)

Article 1 (Effective Date)

These Articles of Incorporation become effective as of March 26, 2010. However, Article 30, Paragraph (1) becomes effective as of May 29, 2010.

Article 2 (Transitional Measures)

With respect to the non-executive directors appointed after these Articles of Incorporation become effective and the calculation of their terms of office under Article 38, Paragraph 5 hereof, Article 38, Paragraphs 6 and 7 will be applicable to the terms of office served before this Article of Incorporation becomes effective.

ADDENDUM(2012.03.23)

Article 1 (Effective Date)

The amendments to Article 40 of the Articles of Incorporation shall become effective from the date of approval by the General Meeting of Shareholders, March 23, 2012 and the other amendments shall become effective from April 15, 2012. Therefore, the amendments to the Articles of Incorporation shall not apply to any shares and bonds issued before the effective date of the Articles of Incorporation.

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: April 30, 2012

/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: April 30, 2012

/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, 2011 (the “Form 20-F”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: April 30, 2012

/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, 2011 (the “Form 20-F”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: April 30, 2012

/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 April 27, 2012 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
April 27, 2012