

NEW STAR  
FOR A  
NEW ERA



KB Financial Group ANNUAL REPORT 2008

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# A NEW STAR TO LEAD THE ASIAN FINANCIAL INDUSTRY

With the launch of KB FGI in September 2008, KB Financial Group boasts a comprehensive array of financial services, the nation's largest customer base, and unmatched financial stability. \_\_\_\_\_

We will leverage these competitive advantages to become "A Global Financial Group, Leading the Asian Financial Industry" and a genuine "Global Financial Star" serving our shareholders, customers, management and employees, and every member of society. \_\_\_\_\_

KB Financial Group at a Glance

A BRIGHT NEW GROUP

OF **STAR**

**SHINING**

ACROSS

THE FINANCIAL UNIVERSE

By strengthening the market positions, improving management efficiencies, elevating productivity and systematizing risk management of our nine subsidiaries—Kookmin Bank, KB Investment & Securities, KB Life Insurance, KB Asset Management, KB Real Estate Trust, KB Investment, KB Futures, KB Credit Information and KB Data Systems—KB Financial Group is building a solid foundation for growth as Korea's premier financial group that leads the financial industry. —

As we strive to provide our customers with the best products and distribution channels, we will strengthen our core business capabilities in banking, brokerage, insurance and asset management, while creating maximum synergies between business areas. —

KB Financial Group will pursue strategic localization strategies and profit-oriented growth in expanding our overseas presence, and realize our mid- to long-term management vision of joining Asia's Top 10 and the world's Top 50 global financial groups, and fulfilling our role as "A Global Financial Group, Leading the Asian Financial Industry." —

KB \*b Kookmin Bank

KB \*b Investment & Securities

KB \*b Life Insurance

KB \*b Asset Management

KB \*b Real Estate Trust

KB \*b Investment

KB \*b Futures

KB \*b Credit Information

KB \*b Data Systems

# No.1

Nation's largest customer base & branch network

# Leading

Highest ROE as of the end of September 2008

# Best

Selected best in Call Center operations for 2 consecutive years

# Top-tier

KRW22.2 trillion in AUM with industry-leading product range

# First

Concluded Korea's first-ever national property trust contracts

# Largest

Industry's largest PEF asset scale with KRW511.2 billion

# Superior

Highest net income increase among top-ranked firms

# No.1

Top revenue & net income results in Korea's debt collection industry

# Biggest

Builder of the Korean financial industry's biggest IT system

In addition to being Korea's biggest bank in terms of customers & branches, and ranked No.1 in the National Customer Satisfaction Index (NCSI) for the past 3 years, Kookmin Bank also boasts unparalleled financial soundness including the industry's highest capital adequacy ratio thanks to a preemptive risk management approach.

With industry-leading profitability and highly competitive corporate banking & institutional sales operations, KB Investment & Securities is building a foundation for growth as the top non-banking business within KB Financial Group.

KB Life Insurance was named best in Call Center operations for each of the past 2 years in the Korea Service Quality Index (KSQI) conducted by KMAC, and is focusing efforts on enhancing customer convenience and providing value-added products and services.

Offering Korea's most diversified range of fund products, KB Asset Management's total assets under management (AUM) exceeded KRW22.2 trillion at the end of 2008.

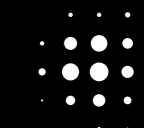
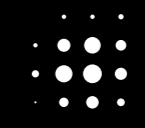
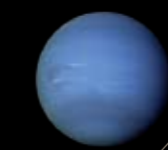
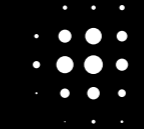
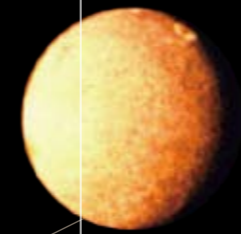
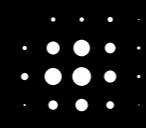
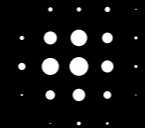
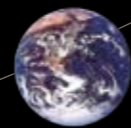
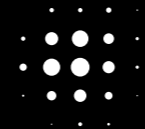
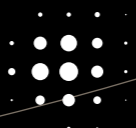
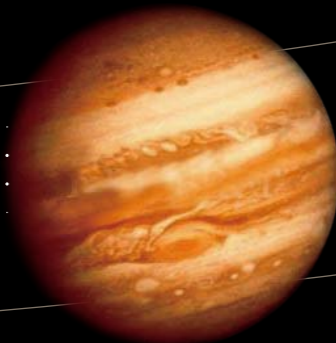
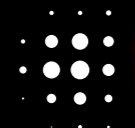
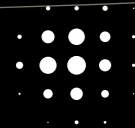
KB Real Estate Trust was the first in Korea to contract national property trusts and is currently diversifying income sources and pursuing overseas development projects.

Entering the PEF market in 2008, KB Investment was the first to exceed KRW500 billion in PEF assets under management and received an "A" rating by the Small & Medium Business Administration for venture capital firm management excellence.

Recording an 80% net income increase in 2008 over the previous year owing to improved revenues from brokerage and proprietary trading, KB Futures boasts superior net operating capital & asset liability ratios to secure outstanding capital adequacy and financial soundness.

In asset scale, profitability and services, KB Credit Information enjoys a commanding lead over other firms specialized in debt collection.

KB Data Systems successfully completed construction of Kookmin Bank's next-generation internet banking system in 2008, the largest and most advanced IT project in the financial sector.





**Business Summary**

Korea's largest bank in terms of customers and branches, Kookmin Bank was also first in the financial industry to record net income over KRW2 trillion for three consecutive years in 2007. Kookmin Bank has strengthened marketing systems through G-CRM, improved asset soundness, ranked No. 1 in customer satisfaction, acquired the highest credit ratings among Korea's banks, and upgraded risk management systems in line with the highest global standards.

To cope with intensified competition in the financial sector and growing uncertainty in the global economy, Kookmin Bank will implement its "New Start" management strategy in 2009 through profit-centered cost management, strengthened risk management, customer-focused sales activities, and accelerated synergy creation.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>262,093.2</b>
Total Shareholders' Equity	<b>17,314.1</b>
Net Income	<b>1,510.8</b>

**Major Products and Services**

- Deposit & Loans
- B2B financial products
- Trust fund
- Foreign exchange products
- Credit cards
- Bancassurance
- Private Banking
- Investment Banking
- Derivatives sales
- e-Banking, internet banking, mobile banking, and phone banking

**Business Summary**

Joining KB Financial Group in March 2008, KB Investment & Securities is a comprehensive securities company. In addition to its leadership in the primary market for corporate bonds and ABS, as well as real estate project financing, the company offers brokerage services for institutional and foreign investors, and investment banking services including IPO, ECM, and M&A advisory. It also generates steady earnings from equities, bonds, and derivatives, and has expanded into retail market with the launch of "KB plusstar" home trading system (HTS).

With KB Financial Group's extensive domestic & overseas networks, it aims to become one of the top three comprehensive financial investment companies in Korea by 2013 and grow into one of Asia's leading securities companies.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>2,052.3</b>
Total Shareholders' Equity	<b>322.1</b>
Net Income	<b>34.8</b>

**Major Products and Services**

- Equities and derivatives brokerage services for retail and wholesale clients
- Domestic and overseas equity & bond underwriting
- Real estate project financing
- IPO, ECM, M&A advisory
- Equity and derivatives trading
- Sales of financial products (including beneficiary certificates)
- Research/analysis on domestic & overseaseconomies and stock markets

**Business Summary**

KB Life Insurance was established with capital participation by Kookmin Bank and ING Group, the internationally renowned financial institution. Initiating bancassurance operations in June 2004 through Kookmin Bank's domestic branches, KB Life Insurance provides an array of insurance products via diversified sales channels, including the newly launched General Agency (GA) and telemarketing (TM). In 2009, it will launch a Total Consultant by Tele-skill (TC) channel to serve as the key outbound face-to-face channel of KB Financial Group to market a full range of financial products.

To become the "customer's first choice" among insurance companies, it will diversify sales channels and enhance operation processes, infrastructure and risk management in pursuit of steady, with its goal of joining the industry's "Top 5 by 2013."

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>1,769.3</b>
Total Shareholders' Equity	<b>126.5</b>
Net Income	<b>-6.5</b>

**Major Products and Services**

- Nonparticipating KB Platinum Annuity Insurance
- Nonparticipating KB Royal Saving Insurance
- Nonparticipating KB Gold Class Saving Insurance
- Nonparticipating KB Champion Variable Annuity Insurance
- Nonparticipating KB Equity Investment Saving Insurance
- Nonparticipating KB whole life insurance

**Business Summary**

KB Asset Management has made a vital contribution to the industry's high growth with its comprehensive asset management services. Its main businesses include the trading & brokerage of collective investment schemes managed by the company, asset management of a wide range of collective investment schemes, and investment advisory & investment trust business. To become Korea's leading asset management company armed with world-class management processes, it puts into practice its management philosophies of "Optimal customer satisfaction through optimal risk-adjusted return" and "Dynamic work ethic and environment created by passionate and driven professionals."

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>126.8</b>
Total Shareholders' Equity	<b>116.5</b>
Net Income	<b>27.9</b>

**Major Products and Services**

- Asset management of collective investment schemes including equities, bonds, derivative funds, real estate funds, SOC funds and corporate funds.
- Investment trust management: Special asset funds including public institutional funds and variable insurance
- Trading & brokerage of collective investment schemes managed by the company: Direct sales of the company's funds

**Business Summary**

KB Real Estate Trust seeks to lead the real estate trust industry by providing superior integrated services through a nationwide branch network comprising its head office in Seoul and regional offices in Busan, Daejeon, Daegu and Gwangju. Hereafter, in addition to collaboration with KB Financial Group subsidiaries, KB Real Estate Trust will elevate its business network through strategic alliances with domestic & foreign real estate firms and strengthen its financial structure and risk management systems. This will enable it to respond aggressively to changes in economic conditions and grow into Korea's leading real estate IB.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>221.4</b>
Total Shareholders' Equity	<b>97.5</b>
Net Income	<b>1.2</b>

**Major Products and Services**

- Land development trusts, real estate collateral trusts, real estate management trusts, real estate disposal trusts
- Proxy real estate business affairs, real estate consulting, brokerage, and overseas businesses
- REITs, AMC

**Business Summary**

KB Investment assists small and medium-sized enterprises in financial and business decision-making through each stage of a company's growth, from establishment to listing on the Kosdaq. Its corporate support solutions provided in cooperation with Kookmin Bank enable KB Investment to offer differentiated services for its invested companies. As a specialist and long-term investor in non-listed companies in new growth sectors, it will expand its business scope from venture investment to mid-sized M&As and other corporate investment, while playing a key role in maximizing group-wide synergy creation.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>115.4</b>
Total Shareholders' Equity	<b>103.8</b>
Net Income	<b>3.2</b>

**Major Products and Services**

- Venture investment
- Corporate investment (management restructuring, M&A, buyout investment, etc.)
- Joint venture investment, corporate restructuring fund, and Private Equity Fund (PEF) management

**Business Summary**

KB Futures, a brokerage firm specializing in derivatives, contributes to the development of sound investment practices and provides state-of-the-art professional services equipped with experienced industry professionals, superior IT infrastructure, insightful research, and an advanced risk management system. KB Futures aims to rise to the top of Korea's futures industry through a combination of a strong financial structure and sophisticated management knowhow, and its customer-centered, honest business practices and talent-focused management philosophy.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>150.1</b>
Total Shareholders' Equity	<b>38.2</b>
Net Income	<b>5.8</b>

**Major Products and Services**

- Domestic/international futures & option transaction brokerage including stock price index products, interest rate products, currency futures, and foreign commodities
- Collection and dissemination of domestic/overseas futures market information
- Futures-related investment advisory and education & training

**Business Summary**

KB Credit Information specializes in the management of unpaid receivables and commands a leading position among domestic debt collection companies in terms of asset scale, profitability and services. Through rapid and effective disposal of non-performing debts based on its high-caliber expertise and advanced debt management systems, the company strives to support restoration of the debtor's credit and a smooth cycle of financial transactions. In line with its vision of "Becoming the No. 1 credit information company through end-to-end service," KB Credit Information seeks to maintain its lead in the debt collection industry and grow into a comprehensive credit information service provider through total integration of KB Financial Group subsidiaries' credit evaluation processes.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>50.6</b>
Total Shareholders' Equity	<b>44.5</b>
Net Income	<b>4.1</b>

**Major Products and Services**

- Debt collection for loans and credit cards
- Credit investigation
- Lease investigation
- Civil affairs document-issuing service, etc.

**Business Summary**

Established in 1991, KB Data Systems is a specialized financial system company for IT project development, system management, sales of financial IT solution packages and resale of IT hardware equipment, and serves as IT partner for Kookmin Bank. Based on its accumulated experience, the company is transferring financial IT knowhow to countries overseas, including Indonesia and Japan, and taking steps to improve its global competitiveness. In line with its corporate vision to become "Korea's Premier Financial SI Company," KB Data Systems keeps pace with financial industry changes and the paradigm shift in competition, and puts its management philosophy of customer trust, employee emphasis, creative innovation and honest management into daily practice.

• **Key Financial Indicators**  
(in KRW billion)

Total Assets	<b>46.5</b>
Total Shareholders' Equity	<b>26.5</b>
Net Income	<b>6.3</b>

**Major Products and Services**

- IT project development (Integrated business solutions, risk management systems, etc.)
- IT systems operation and resale of IT hardware equipment (computer servers, storage, etc.)

# Financial Indicators

In spite of the difficult internal and external economic environment, KB Financial Group achieved strong financial results in 2008 with significant improvements in asset quality and profitability. Although net income decreased due to the group's preemptive and conservative provisioning policy, the group maintained solid profitability as net interest income—the main source of income—recorded a 4.6% increase over 2007 despite the downturn in market interest rates. The group's total assets rose by 20.8% to KRW320 trillion (including Trust and assets under management) over the previous year, while total shareholders' equity increased by 16.8% to KRW18.8 trillion (including treasury stock).

In 2008, BIS CAR stood at 13.18% (based on Kookmin Bank), the highest capital adequacy level in the industry, and the NPL ratio was 1.26% (based on Kookmin Bank).

320.0

**Group Total Assets**  
(KRW in trillions)

18.8

**Group Total Shareholders' Equity**  
(KRW in trillions)

1,873.3

**Group Net Income**  
(KRW in billions)

4,387.1

**Group Operating Income before Provisioning**  
(KRW in billions)

0.75

**ROA**  
(%)

11.92

**ROE**  
(%)

13.18

**BIS CAR**  
(based on Kookmin Bank)  
(%)

1.26

**NPL Ratio**  
(based on Kookmin Bank)  
(%)

# Message from the Chairman

To Our Valued Shareholders and Customers:

The launch of KB Financial Group firmly establishes our reputation domestically and internationally as Korea's premier financial group, and marks the first giant step toward realizing our goal of becoming "A Global Financial Group, Leading the Asian Financial Industry."

As the group's first chairman, I would like to convey on behalf of our management and employees my deepest thanks to our shareholders and customers for their unwavering support and encouragement.

Looking back over the last year, the subprime mortgage debacle that began in the U. S. ignited a worldwide financial crisis that has posed grave challenges for the Korean economy. In particular, instability in international financial markets from September onwards has exacerbated the domestic credit crunch and FX volatility, blunting Korea's economic growth rate.

To seek new growth amid these arduous times, the birth of KB Financial Group Inc. as a financial holding company signifies an important turning point. Although the domestic and global economies face many difficulties, our shareholders' trust and active cooperation ensured the smooth launch of our financial group. Consequently, we have already taken the first major step toward realizing KB Financial Group's future vision of becoming "A Global Financial Group, Leading the Asian Financial Industry."

In 2008, KB Financial Group acquired the former Hannuri Investment & Securities as part of our business portfolio diversification strategy, while Kookmin Bank became the first bank to earn top scores for three consecutive years in the National Customer Satisfaction Index (NCSI), illustrating our stature as Korea's premier financial group. Internally as well, we enhanced our quality-oriented management to aggressively manage costs and sharpen our focus on profitability by implementing a new crisis management framework to cope effectively with turbulence in global financial markets.

As a result of these efforts, the group performed well in spite of formidable obstacles posed by the current crisis. The group's total assets rose by KRW 44.5 trillion from the previous year to KRW 267.5 trillion, although total group





net income was down KRW 888.9 billion to KRW 1.9 trillion for the same period.

As for the overall scale of group business, total loans amounted to KRW202.2 trillion as of the end of 2008, up KRW28.2 trillion year on year. In terms of funding, deposits and borrowings increased by KRW20.1 trillion and KRW13.3 trillion to KRW162.2 trillion and KRW63.5 trillion, respectively.

Asset soundness calculated at the group level deteriorated somewhat over the year earlier, an aftereffect of recent financial sector turmoil. The ratio of substandard and below loans (NPL ratio) edged up 0.54 percentage point to 1.32%, while the group-wide coverage ratio slipped 54.96 percentage points to 130.32%.

On the profit side of the ledger, though operating income before provisions amounted to KRW4.4 trillion, a KRW1.3 trillion increase in loan loss provisioning year on year to KRW1.8 trillion led to a decline in net income.

Even with the multilateral efforts major countries have devoted to stabilizing financial markets and stoking economic activity, the global financial crisis continues and is rapidly infecting the real economy. Given expectations that the crisis will continue unabated for a considerable period of time, we anticipate a negative impact on profitability and growth rates in the financial market. Moreover, in line with the implementation of Korea's Financial Investment Services and Capital Markets Act (FSCMA) in 2009 and the easing of restrictions in all financial areas, market competition is certain to intensify.

Nevertheless, 2009 will also be the year we turn crisis into opportunity and find the means to grow even in a down market. Our customer base is the nation's largest, our level of financial stability is unmatched, and our dedicated and driven team of 30,000 professionals is simply without peer in the Korean financial industry. We will leverage these strengths in the coming year as we pursue our guiding objective, "Building a Foundation for Sustained Growth through Quality-oriented Management." The following four core tasks will enable us to achieve this goal.

**First, we will create a platform for maximizing group synergies.**

Utilizing the industry's largest customer base and most competitive distribution channels, revenue synergies will be created through the sharing of customer information and sales channels among all subsidiaries including Kookmin Bank. Our mission is to deliver customers the value they want in the most affordable, prompt and convenient manner possible and maintain our unrivalled customer satisfaction ratings, while strengthening product and service capabilities evenly across all business areas, and working to maximize potential synergies.

**Second, we will solidify our growth platform by strengthening risk management.**

The "Integrated Risk Management System" will be institutionalized, enhancing our ability to identify early and respond effectively to financial and non-financial risks stemming from changes in our operating environment. Efficient operation of risk management and monitoring systems will also contribute to asset soundness and prepare a firm basis for profitable growth.

**Third, we will carry out quality-oriented management focusing on cost efficiency and profitability.**

In response to weakening profit creation environment and increasing cost burdens due to the slumping economy, we will redouble efforts to fortify risk management systems and improve management efficiencies. Greater cost efficiency strengthens our internal management capabilities, while stronger profitability translates into qualitative growth.

**Fourth, we will strategically pursue opportunities for M&As.**

We are seeking economies of scale to grow KB Financial Group into globally competitive player, and also striving to dramatically improve our profitability. As such, we are making meticulous preparations to pursue organic growth of



our subsidiaries and look for attractive mergers & acquisitions. With conditions in the financial sector expected to become extremely harsh in 2009, it is likely that a number of companies will seek mergers to guarantee their survival. In this time of market flux and upheaval, KB Financial Group will follow a flexible strategy with regards to M&As.

Our management and employees are fully committed to executing the core tasks outlined above in 2009, overcoming the present crisis and setting our course for success as a globally competitive financial group.

Once again, I thank our shareholders and customers for their steadfast support and ask for your continued interest and encouragement during the year ahead. On behalf of everyone at KB Financial Group, I wish you and your loved ones a healthy and prosperous new year.

Thank you.

A handwritten signature in black ink, appearing to read 'Y. K. Hwang'.

Young-Key Hwang  
**Chairman & CEO**  
KB Financial Group

# 2008 Highlights



## KB Financial Group Inc. Officially Launched

KB Financial Group Inc. (KB FGI) was established on September 29, 2008 through a comprehensive stock transfer from its major subsidiaries, with shares listing on the KOSPI on October 10. The premier financial group in Korea, KB FGI has set its sights on becoming one of Asia's top 10 and the world's top 50 financial services group under the vision, "A Global Financial Group, Leading the Asian Financial Industry."

## KB Investment & Securities Sets Sail

The establishment of KB Investment & Securities on March 11, 2008 has sharpened KB Financial Group's competitive edge in capital markets and lays the groundwork for brokerage-banking synergy creation. Expanding its role as the primary non-banking



subsidiary of KB Financial Group, KB Investment & Securities is entering retail markets and OTC derivatives trading, while strengthening its leadership position in corporate finance and institutional sales areas by ramping up market share and profitability in corporate bonds & ABSs underwriting and project financing businesses.

## Voted Best in Customer Satisfaction Year after Year

Kookmin Bank extended its lead at the top of Korea Productivity Center's *National Customer Satisfaction Index* (NCSI) to three consecutive years, a first among domestic banks. In addition, Kookmin Bank reaffirmed its position as the nation's unrivaled "customer satisfaction leader" by earning top honors for the second year in a row in two other surveys: Korea Management Association Consulting's *Korean Customer Satisfaction Index* (KCSI) and *Korean Net Promoter Score* (KNPS).



## Kookmin Bank's Brand Power Soars

The year 2008 saw Kookmin Bank's brand power rise across a broad range of indicators. Kookmin Bank received its seventh straight Grand Prize in the "over KRW3 trillion in brand value" banking category in the Institute for Industrial Policy Studies' *Corporate Brand Power Survey*. Likewise, the bank came in first for the fifth consecutive year in the Korea Productivity Center's *National Brand Competitiveness Index* (NBCI) in the Service category, and also topped the Banking category of the *Korea Brand Power Index* (K-BPI) conducted by Korea Management Association Consulting for a record-breaking 10 years in succession. Along with these distinctions, Kookmin Bank was the first-prize winner in *The Korea Economic Daily's* 2008 Social Contribution Corporate Awards for the Youth Welfare category, marking the bank's third straight victory in this event. Kookmin Bank's "GOLD & WISE" private-banking service brand garnered a series

KB Financial Group diversified its business portfolio with the launch of KB Investment & Securities, and extended its lead as Korea's No.1 financial group as measured by customer satisfaction and brand recognition. We are also concentrating on establishing advanced systems that will maximize group-wide synergies.



of top kudos, including the Korean Brand Award for the second consecutive year. Similarly, the bank's *GOLD & WISE* magazine won the Grand Prize in the 2008 International Business Awards and the Health, Wealth & Family Affairs Minister's Award in the 2008 Korea Communication Awards. Kookmin Bank demonstrated its industry-leading brand power once again by winning various domestic and foreign awards.

*Korea Economic Daily* and other major domestic journals. To commemorate the founding of KB Financial Group, the bank developed "KB Junior Package" including passbook, installment savings and check card accounts for children and youths, and attracted over KRW1 trillion in just nine days after the launch of its new "Hub Time Deposit," winning acclaim from the nation's financial press of each of these hit products.

to exceed 10 million individual internet banking customers in 2007, Kookmin Bank was also the first bank to boast over 2 million mobile banking subscribers in January 2008. Kookmin Bank has also improved its non-face-to-face service channels by launching a next-generation internet banking system and mobile banking service featuring "chip-less" authentication.

#### More Hit Products Launched

Kookmin Bank attracted strong customer interest thanks to its winning streak of popular new financial products. Kookmin Bank's recently launched "WINE Time Deposit" aimed at middle-aged customers was selected as the 2008 Korea Best Product by Korea Management Association Consulting (KMAC), while the new "KB Star\*t Deposit" designed for young savers was chosen as the year's hit product by *The*

#### Prepared for Next-generation Systems

Completed in October 2008, the Yoido IT Center is KB Financial Group's advanced IT strategy base, equipped with world-class eco-friendly "Green Data Center" technologies such as cooling and power-monitoring systems that minimize energy consumption and CO2 emissions. The new center also integrates the IT systems of group subsidiaries to ensure maximum stability of internal IT services. First in the domestic financial industry

#### Kookmin Bank TV Ad Grabs National Spotlight

Created for the 2008 Beijing Olympic Games, Kookmin Bank's popular TV commercial showcasing the youthful dynamism of world-class Korean athletes Park Tae-hwan and Kim Yu-na helped to burnish the bank's industry-leading position. The ad captured nationwide attention and won accolades from dailies, including the Grand Prize at the *Hankook Ilbo*-sponsored 2008 Korea Advertising Awards.

# 2008 Awards & Recognition

## No. 1 in Customer Satisfaction for 3 Straight Years



In December 2008, Kookmin Bank became the first to rank No.1 for three straight years in the banking category of the National Consumer Satisfaction Index (NCSI) conducted by the Korea Productivity Center. This year's victory, the result of ongoing bankwide customer service innovation since 2005, was particularly meaningful given severe difficulties at home and abroad from the latter half of 2008.

## "Best Korean Retail Bank" for 6th Consecutive Year



Named "Best Korean Retail Bank" for the sixth year in succession by the authoritative financial journal, *The Asian Banker*, Kookmin Bank once again lived up to its reputation as Korea's retail banking leader. The bank's unbroken winning record is attributed to successful forays into low-cost, high-efficiency areas of retail banking, including non-traditional fields such as internet banking and mobile banking, and a steady stream of new product launches.

## 2008 Talent Management Award



Kookmin Bank earned the "Talent Management Award" at the 2008 Korea Management Quality Awards organized by KMAC in recognition of its innovative corporate culture, good workplace campaign, and social contribution activities. The bank was also chosen as the 2<sup>nd</sup> most desirable workplace by university students in a survey by Incruit, Korea's top HR firm, and 3<sup>rd</sup> most desirable by service sector employers.

## Major Awards in 2008

2008. 1. 2	Ranked 6th among Korea's top 100 brands in 2007 (BrandStock)	2008. 5. 16	"Best Korean Retail Bank" for 6th straight year ( <i>The Asian Banker</i> )
2008. 1. 11	KB Card received "2008 Customer Satisfaction Management Award" ( <i>Korean Econ. Daily</i> )	2008. 5. 27	Kookmin Bank CEO Kang won 2 <sup>nd</sup> Grand Prize in 2 years at "Korea's Best CEO" Awards ( <i>Economy 21</i> )
2008. 1. 16	Named "Best Domestic Bank" ( <i>The Asset</i> )	2008. 5. 28	"Wine Time Deposit" selected for 2008 "The Proud" award (KMAC)
2008. 1. 23	Named "2007 Model Fund Seller" (Korea Investors Education Foundation)	2008. 5. 28	"KB Platinum Card" selected for 2008 "The Proud" award (KMAC)
2008. 1. 23	Ranked No. 1 in banking for "CEO Name-brand Value" among Top 500 companies ( <i>The New Management</i> )	2008. 5. 28	"KB Star*t Deposit" earned 2008 "Remarkable New Product" award (KMAC)
2008. 1. 29	Named "2007 Best Korean Fund Seller" ( <i>Maeil Business Newspaper, Zeroin</i> )	2008. 5. 28	"KB&d Card" earned "Remarkable New Product" award (KMAC)
2008. 1. 31	Selected No.1 in 2007 "Custody Service Survey" ( <i>Global Custody</i> )	2008. 6. 4	Received "2008 Best Brand" Grand Prize (imbc, Dong-A.com, Hankyung.com)
2008. 2. 11	Voted 2 <sup>nd</sup> Most Desirable Workplace by university students (Incruit)	2008. 6. 4	KB Card received "2008 Best Brand" Grand Prize (imbc, Dong-A.com, Hankyung.com)
2008. 2. 28	Received Korea Web Awards' Grand Prize (Info. & Comm. Minister's Award)	2008. 6. 9	Ranked 3 <sup>rd</sup> among Korea's Top 100 Companies ( <i>Hankyung Biz Weekly</i> , KIS)
2008. 3. 5	Designated No. 1 in Korea Brand Power Index, banking, 10 <sup>th</sup> year in a row (KMAC)	2008. 6. 11	Kookmin Bank CEO Kang won "Most Trusted CEO" Grand Prize 2 years in succession ( <i>Hankook Ilbo</i> , KCCI)
2008. 3. 19	KB Data Systems earned CMMI Level 4 (ver. 1.2) certification, first in financial sector	2008. 6. 12	PB brand "GOLD & WISE" won 2008 Best Brand Star ( <i>Korea Economic Daily</i> )
2008. 3. 20	KB Life Insurance received "Outstanding Call Center" Award in KSQI (KMAC)	2008. 6. 12	Won 2008 Corporate Governance Award (Corporate Governance Service)
2008. 3. 26	2008 "Good Employer Award" for 2 <sup>nd</sup> consecutive year ( <i>Economy 21</i> )	2008. 6. 24	"KB Star Card Leather Style" earned GD Mark for 2 <sup>nd</sup> consecutive year (Ministry of Knowledge Economy)
2008. 3. 27	"KB Star*t Deposit" earned JOY+Brand Award ( <i>Financial News</i> )	2008. 7. 6	Ranked 12 <sup>th</sup> among Asia's 300 Best Banks by total assets, 6 <sup>th</sup> by net income (Yazhou Zhoukan)
2008. 4. 3	Ranked No. 180 in "Forbes Global 2000" ( <i>Forbes</i> )	2008. 7. 7	Selected No.1 by customers in 2008 Korea After Sales Service Index (KASSI) ( <i>JoongAng Ilbo Economist</i> , Sogang Uni. Economic Research Inst.)
2008. 4. 10	KB Card received Hankyung Marketing Award ( <i>Hankyung</i> )	2008. 7. 10	Ranked 461 <sup>st</sup> in 2008 "Fortune Global 500" ( <i>Fortune</i> )
2008. 4. 14	Voted No.1 in banking sector in 2008 Brand Star Survey (BrandStock)		
2008. 4. 28	No. 1 Brand in Financial Sector among University Students (Job Korea)		
2008. 4. 30	Kookmin Bank CEO Kang ranked among Best 100 CEOs, 4 <sup>th</sup> consecutive year ( <i>Maekyung Economy</i> )		



With Kookmin Bank becoming the first domestic bank to be ranked No.1 in customer satisfaction for three straight years and selected as “Best Korean Retail Bank” for six consecutive years, KB Financial Group has a proud reputation of putting the customer first. We are also recognized for our devotion to the community, earning Korea’s coveted “Mecenat Award” and other accolades in all areas of social contribution.

Grand Prize at 2008 Mecenat Awards



Kookmin Bank won the Grand Prize at the 2008 Mecenat Awards co-sponsored by the Korean Business Council for the Arts and *Maeil Economic News* for its efforts to bring culture to the nation’s youth & citizenry. This includes renovation of the “KB Haneul Youth Theater” and Youth Song & Dance Hall. The bank also earned the *Korea Economic Newspaper’s* “Social Contribution Corporate Award” for the third year in succession.

KB Data Systems Wins 2 Prizes at “Web Award Korea 2008”



KB Data System took top honors in two categories—Finance & Communications and UI Innovation—at the “Web Award Korea 2008” competition hosted by the Web Award Korea Committee, with support from the Korea Software Industry Promotion Agency, the Korea Culture & Content Agency and others, on December 19, 2008.

KB Life Insurance Ranked Best in Service Quality for 2nd Consecutive Year



On March 20, 2008, KB Life Insurance received the best score for the second time in two years in the “Korea Service Quality Index” (KSQI) conducted by Korea Management Association Consulting, with the insurer’s outstanding call center operations earning high praise. KB Life Insurance’s efforts to elevate customer service quality through systematic processes and service education have contributed to the company’s consecutive first-place ranking in the KSQI.

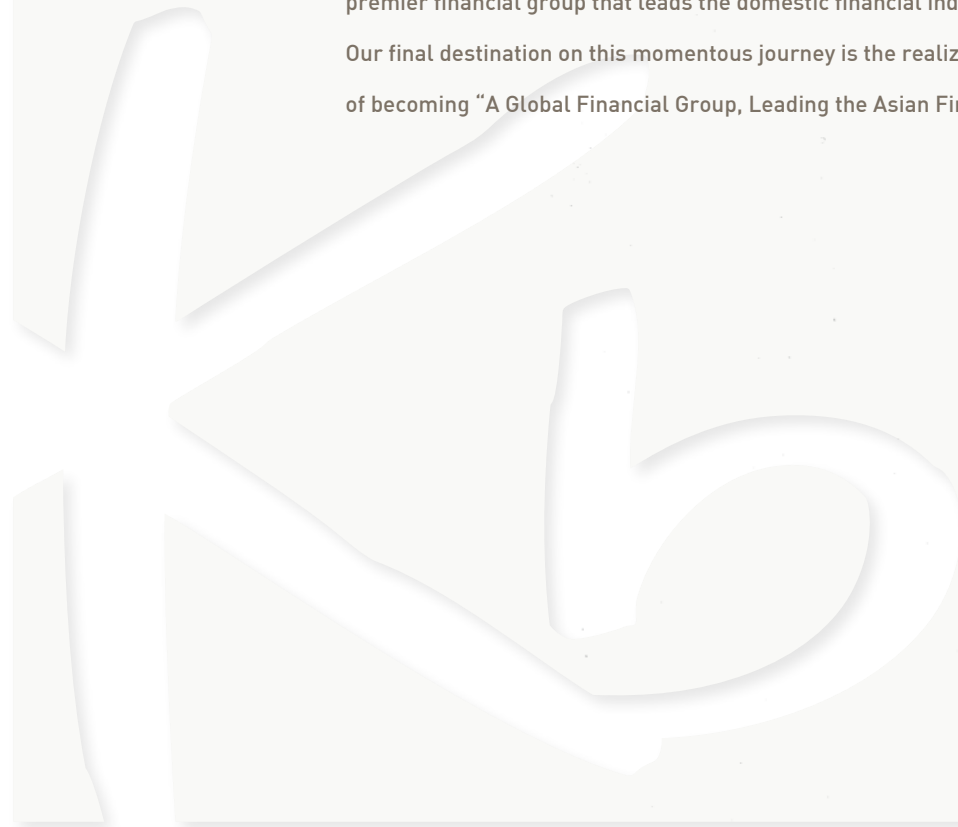
2008. 7. 10	“GOLD & WISE” magazine won 2008 “International Business Awards” Grand Prize	2008. 11. 20	Named “House of the Year” at 9th Asia Risk Awards ( <i>Asia Risk</i> )
2008. 7. 16	Kookmin Bank CEO Kang named 2008 “Best CEO” ( <i>Hankyung Business</i> )	2008. 11. 21	Top prize in banking category at 11th Hankyoreh Ad Awards ( <i>Hankyoreh</i> )
2008. 7. 16	Ranked 56th among 1,000 global banks and 12th among Asian banks by Tier 1 capital ( <i>The Banker</i> )	2008. 11. 26	Received 3rd consecutive “Social Contribution Corporate Award” ( <i>Korea Econ. News</i> )
2008. 7. 21	Named 3rd most desirable workplace in service sector (KMAC)	2008. 11. 26	Ranked 1st in “KRW3 Trillion Brand Value Bank” category in the Corporate Brand Power Survey (IPS)
2008. 8. 29	Kookmin Bank CEO Kang won “Global Leadership Award” ( <i>Hankyung</i> )	2008. 11. 26	Took Grand Prize in “2008 Cultural Advertising Grand Prix” ( <i>Munhwa Ilbo</i> )
2008. 9. 5	Received 2008 “Korean Best Brand Award” in service category (Korea Brand Management Assoc.)	2008. 12. 10	Kookmin Bank won FSS Governor’s Prize in “Group” category at 3rd Kyunghyang Finance Education Awards ( <i>Kyunghyang Sinmun</i> , FSS, CRSS)
2008. 9. 8	Ranked top brand for 2nd-half 2008 in service category of NBCI for 5th straight year row (KPC)	2008. 12. 11	Won “2008 e-Biz Brand Innovation Award” ( <i>Hankyung Magazine</i> )
2008. 9. 11	Topped Korean Customer Satisfaction Index (KCSI) for 2nd time in 2 years (KMAC)	2008. 12. 12	“GOLD & WISE” magazine won Health, Welfare & Family Affairs Minister’s Award in “Corporate Publication” category at 2008 Korea Communication Awards (Korea Corp. PR Assoc.)
2008. 9. 25	“Family Love Savings Account” won “JOY+Brand Award” ( <i>Financial News</i> )	2008. 12. 16	Earned “Korea Net Promoter Score” Award in customer satisfaction category (KMAC)
2008. 9. 25	Received 2008 “Company of the Year” Award (Korea CEO Association)	2008. 12. 17	Topped the banking sector for the 3rd straight year in NCSI (Korea Productivity Center)
2008. 10. 21	Received 2008 “Talent Management Prize” (KMAC)	2008. 12. 17	“KB Star Card Leather Style” won “OSCARD Award 2008” for shape & design category ( <i>Publi-News</i> , Visa Europe)
2008. 10. 23	Won Platinum Award in “JMnet Ad Awards” (JMnet)	2008. 12. 19	KB Data System took top honors in “Finance & Communications” and “U.I. Innovation” categories at “Web Award Korea 2008” awards (Korea Software Ind. Promotion Agency)
2008. 10. 28	Kookmin Bank CEO Kang received Grand Prize at 2008 “Korea Financial Innovation Awards” ( <i>Money Today</i> )		
2008. 10. 29	Won Grand Prize at 2008 “Korea Advertising Awards” ( <i>Hankook Ilbo</i> )		
2008. 10. 30	“KB Junior Package” selected as “Top Brand” in 2nd Half of 2008 ( <i>Segye Ilbo</i> )		
2008. 11. 11	Earned record-setting 3rd consecutive GD Mark with mother-of-pearl type “KB Star Platinum” card (MKE)		
2008. 11. 12	Won Grand Prize at “2008 Mecenat Awards” (Korean Biz. Council For the Arts, <i>Maeil Econ. News</i> )		
2008. 11. 19	Won Grand Prize at 2008 “fn Advertising Awards” ( <i>Financial News</i> )		

# NEW STAR

## FOR NEW CORPORATE VALUE

The significance of the launch of KB FGI goes beyond the transition to a financial holding company structure— it represents the start of our quest to become Korea's premier financial group that leads the domestic financial industry.

Our final destination on this momentous journey is the realization of our vision of becoming "A Global Financial Group, Leading the Asian Financial Industry."







# Vision & Strategy

## 01. Management Vision

Comprising a dynamic business lineup centered around its holding company, KB Financial Group is strategically poised to lead the Korean financial industry as the nation's premier financial group. With our management vision of becoming "A Global Financial Group, Leading the Asian Financial Industry," we will strive to position KB Financial Group among the top-ranked financial players in Asia and the world. To help us realize this vision, we are broadening our overseas presence by expanding the "KB Triangle Network" linking our operations in China, South Asia and the CIS, including the opening of new branch in Harbin, China. We are also forging new business alliances with foreign partners, including Japan's SMBC, Spain's BBVA, and the Netherlands' ING.

## 02. Mid- to Long-Term Strategies

### Fortify Group Growth Engines

KB Financial Group's core competitive advantages lie in its largest domestic customer base and branch network. Building upon this foundation, our goal is to increase the market shares of Kookmin Bank and other subsidiaries, while building a foundation for growth by raising productivity through improved efficiency and optimizing risk management.

### Strengthen Integrated Financial System Capabilities

To provide our customers with the best products and distribution channels, we will strengthen our core business areas of banking, brokerage, insurance and asset management, and generate maximum synergies between different business units.

### Strategically Foster Future Growth Engines

KB Financial Group will leverage our core competencies to broaden our profile in foreign markets, while creating overseas business bases through localization strategies. Moreover, we will simultaneously pursue greater scale

and improved profitability by identifying potential markets and devising new growth models.

### Build Group Infrastructure

We will instill a group-wide corporate culture that embraces the unique and diverse cultures of all our subsidiaries, and establish a relevant HR management framework. Additionally, we will build group infrastructure to reach our mid- to long-term goals, including the introduction of a "one-firm" operational management model for an efficient HR management system.

## 03. Strategies by Business Area

**Banking** The banking sector is expected to face intensified competition fueled by changes in the domestic business environment, including enforcement of FSCMA and the eroding separation between finance and industry. Meanwhile, the worldwide financial crisis will also alter the global banking landscape.





Korean banks are likely to experience a deterioration in their impressive asset soundness, profitability and growth levels of the past several years owing to the precipitous slump in the domestic and global economy beginning in the latter half of 2008. Under its 'New Start' management strategy for 2009, Kookmin Bank will revamp overall operations through profit-centered cost management, strengthened risk management, customer-focused sales activities, and accelerated synergy creation.

**Securities** In the securities industry, enforcement of the FSCMA is expected to spur existing trends, including industry-wide restructuring, the spread of the financial holding company model, and profit-model differentiation. KB Investment & Securities will create a business model for broad-based growth as it strives to become one of Korea's top three financial investment companies. It will generate stable revenue from existing business areas such as investment banking and research, and devise a growth model to cultivate new areas, including M&A, sales & trading and retail business. Additionally, the company will utilize group synergies to create

a comprehensive network of financial services.

**Life Insurance** Three major trends are forecast for the Korean life insurance market: i) industry-wide reconsolidation led by financial groups and large-scale insurance firms following the revision of the Insurance Business Act; ii) emergence of specialized products & channels focused on the retirement market including pension funds, and private insurance; and iii) growing importance of financial soundness and risk management due to the introduction of risk-based capital solvency ratios. KB Life Insurance will implement strategies to diversify sales channels, increase profitability, strengthen capabilities, and maximize group synergies in a bid to become the first choice of insurance customers. Specifically, it will raise profitability by introducing face-to-face channels to create a growth platform, and developing new products and asset portfolios well-suited to financial market conditions.

**Asset Management** The domestic investment market is expected to grow in line with the shift from savings to investment products and from

real estate to the financial market. Implementation of the FSCMA will expand the business scope of the industry and spur new product development. KB Asset Management's goal is to become the top domestic asset management company with world-class investment processes by creating a high-profit business structure around equity mutual funds and alternative investments. It also plans to develop market-leading foreign investment products through its network of overseas alliances.

**Overseas Business** KB Financial Group seeks to increase its profile throughout Asia and secure a solid foothold in the leading financial centers of the world. First, we will continue to advance throughout Asia with our core businesses of banking and cards, and pursue effective localization strategies to carve out a leading position in the region's financial markets. Secondly, we seek opportunities for growth in the global financial centers of Hong Kong, New York and elsewhere via asset management and investment banking operations.

### Wave I

#### Transition: Build Sustained Growth Platform

- Maximize group synergies
- Strengthen risk management to ensure growth
- Reduce expenses, seek profitable qualitative growth
- Take a flexible approach to M&As

### Wave II

#### Take-off: Secure Global Competitiveness

- Achieve mega-bank status to grow as a global financial group
- Diversify our business portfolio for balanced growth between bank & non-bank businesses

### Wave III

#### Solidification: Position Ourselves as a Global Financial Group

- Establish an operational model based on global best practices
- Enhance group capabilities for another take-off & innovation



# Senior Management



**Heung-Woon Kim**  
Deputy President & CIO

**Kap Shin**  
Deputy President & CFO

**Jung-Hoe Kim**  
President & COO

**Young-Key Hwang**  
Chairman & CEO



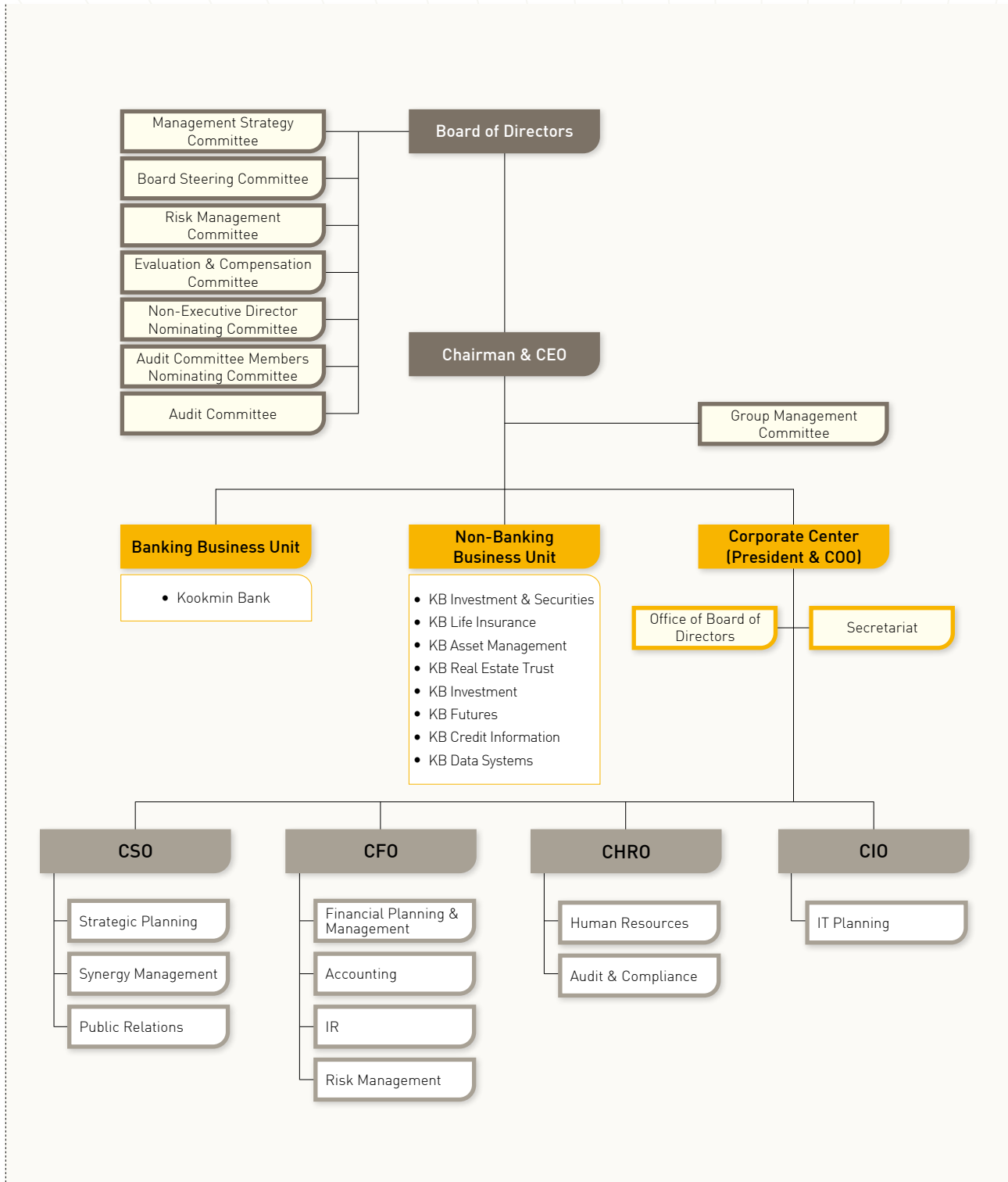


**Chung-Won Kang**  
Vice Chairman

**Dong-Hyun Ji**  
Deputy President & CSO

**Byung-Kun Oh**  
Deputy President & CHRO

# KB FGI Organization



# KB Financial Group Organization



## KB Financial Group Operational Model

Established as Korea's premier financial group and guided by the management vision of becoming "A Global Financial Group, Leading the Asian Financial Industry," KB Financial Group's organization is divided into two basic areas—Business Operations (banking, non-banking) and Group Support Operations—with organic cooperation promoted between and among various business divisions.

To clarify spheres of authority and responsibility among Business Operations, the group's nine main subsidiaries are further classified into Banking Business Unit (Kookmin Bank) and Non-Banking Business Unit (KB Investment & Securities, KB Life Insurance, KB Asset Management, KB Real Estate Trust, KB Investment, KB Futures, KB Credit Information, and KB Data Systems). The Corporate Center oversees matters relating to strategy, synergy, PR, finance (business management/accounting), IR, risk management, HR, auditing, IT and others.

# Synergy Creation

We will do our utmost to maximize synergy creation by means of a group “CRM Mart,” standardized cross-selling and joint sales, customized hybrid products, and a unified loyalty program, while also implementing a variety of activities to instill in our employees a “synergy mindset.”



## SYNERGY CREATION



### Strategies for Generating Synergies

KB Financial Group will pursue the objective of generating synergies in three stages: building a platform for synergy creation; strengthening and broadening the scope of synergy creation; and routinizing and internalizing synergy creation. This strategy will provide a solid basis from which to enhance value for KB Financial Group and its customers even during periods of market fluctuation, such as the current global financial crisis.

### Mid- to Long-Term Synergizing Plans

#### Synergizing through Group “CRM Mart”

The establishment of KB Financial Group opens up new avenues to customer information-sharing among various subsidiaries. This enables KB Financial Group to provide customers with a wider array of financial services such as banking, credit cards, securities and insurance, while creating outstanding opportunities to generate group-wide synergies. To fully realize this new potential, KB Financial Group will establish a “Group CRM Mart” for consistent integration of customer information as analyzed by each subsidiary, and provide customer services & benefits from a group-wide customer value perspective.

#### Activating Synergized Sales

We will encourage close cooperation between subsidiaries in the form of group-level, standardized cross-selling campaigns and joint introductions/sales

processes, thereby activating sales in areas offering opportunities for group synergies. Furthermore, the envisioned "Group Integrated CRM System" will enable group-level integration of customer information, customer service initiatives and marketing activities, and facilitate the selection and execution of target customers for marketing campaigns. To spur these campaigns, PR activities through bank branches, subsidiary websites and various print media will also be strengthened.

#### **Customized Hybrid Products**

Enactment of the Financial Investment Services and Capital Markets Act (FSCMA) is expected to lead to changes in capital market conditions and financial customer needs, including the accelerated evolution from simple products to hybrid financial products and the increased ability to sell products tailored to specific customer requirements. KB Financial Group will steadily reinforce customization in hybrid product development as the market matures, while solidifying long-term customer relations by diversifying our range of investment products.

#### **Group-level Integrated Loyalty Program**

With the launch of KB Financial Group, separate VIP customer programs previously operated by individual subsidiaries will henceforth be operated under the "Group-level Integrated Loyalty Program." Customer transactions at every subsidiary are integrated, and VIP status is determined by the customer's contribution to KB Financial Group. Through this loyalty program, preferred status granted to a customer by one subsidiary will be applied by the entire group, with

customers receiving the same benefits in banking, securities and insurance.

#### **Unified Channels to Create Total Financial Service Network**

We plan to operate unified channels to create a total financial service network whereby customers can access all of KB Financial Group's service offerings with "anytime, anywhere" convenience. Beginning with Kookmin Bank branches, we will establish integrated branches allowing us to perform cross-selling, introduction & joint sales, and hybrid product sales activities in order to generate group synergies and extend full-range financial services to KB Financial Group customers. Linkages between our subsidiaries' internet channels will also be reinforced to enhance customer convenience.

#### **Creating Cost-Saving Synergies through Group Purchasing**

We will harness our synergies to reduce costs by unifying separate purchase programs of individual subsidiaries into a group purchasing program in the areas of IT hardware, software, office equipment and supplies.

Reducing expenses through programs such as group purchasing is a crucial component of our response to the global financial crisis and our efforts to achieve an earlier recovery. KB Financial Group looks beyond simply unifying purchase programs and one-time approaches, seeking to devise ongoing cost-cutting systems through increased bargaining power and enhanced group purchasing capabilities.

#### **Instilling a "Synergy Mindset"**

To foster a sense of belonging and team spirit among employees of all

subsidiaries and maximize the results of active intra-subsidiary cooperation, KB Financial Group plans to implement a number of activities to cultivate an organization-wide "synergy mindset."

Through group training and PR activities, we will instill among all employees an understanding of the importance of creating group synergies and a firm devotion to this task. Utilizing every opportunity for communication, including informal gatherings and community bonding events, we will also disseminate outstanding examples of synergy creation and improve organizational synergy creation.



# IT Systems

KB Financial Group is developing advanced IT systems to maximize the stability of our infrastructure, including a next-generation banking system for Kookmin Bank, the recently completed "Yoido IT Center," and a group-wide integrated risk management system.



## IT SYSTEMS



To support the achievement of KB Financial Group's management targets, we set a strategic direction for the group's mid- to long-term IT strategies and selected a set of core tasks, which are now being implemented in stages.

In the meantime, in order to ensure the creation of a harmonious "One-firm" organization with the launch of KB Financial Group, we are concentrating our capabilities on developing an IT platform that will generate group synergies, building and improving systemized communication channels between KB FGI and our subsidiaries, and devising effective IT investment processes.

### 2008 Results

#### IT Platform Created to Ensure Smooth Transition to KB Financial Group Inc.

IT systems in all areas were established to ensure the successful launch and smooth transition to KB Financial Group. Such efforts included : 1) developing the group's website to support group-wide PR activities and to strengthen our ties with shareholders and customers; 2) building finance, budget, tax and asset management systems for business management; 3) designing HR systems for personnel information and time & attendance management; and 4) creating groupware to activate group-wide communication.

At the same time, IT planning at the group level allowed us to establish guidelines for, or review and make adjustments to the IT business plans of



individual subsidiaries. It also enabled us to identify some of the areas in which the subsidiaries' businesses are similar to or overlap with each other, which we then promoted as joint, group-wide IT projects for the purpose of maximizing IT investment efficiency and generating synergies.

### **Building the Next-Generation Banking System**

Intended to "Provide stable and high-quality Private Banking services to all of Kookmin Bank's 30 million customers," this next-generation banking system is scheduled to be phased into operation in seven areas, including the core banking system, by February 2010. Kookmin Bank had a total of 11.5 million e-Banking customers as of the end of 2008, representing 22.1% of all Korean internet banking users, along with 2.2 million mobile banking customers (43.4%) and 3.7 million phone banking customers, boasting the highest number of online customers among Korean banks.

### **Completion of Kookmin Bank's Next-Generation Internet Banking System**

Launched in 2008, Kookmin Bank's next-generation internet banking system is the nation's first non-stop customer service, and its enterprise knowledge portal "Wise-Net System" has been converted into a group-wide platform for synergy creation.

Furthermore, the recently completed Yoido IT Center, built to meet the growing business requirements of KB Financial Group for the next 20 years, is a world-class "green data center" equipped with state-of-the-art cooling systems and power monitoring systems to minimize power usage and carbon

dioxide emissions.

### **Retail Operations Systems Developed for KB Investment & Securities**

To strengthen its retail operations, KB Investment & Securities launched "KB plusstar," an advanced online trading system, and the web-based Web Trading System (WTS). Other systems have been established to support the company's growing retail operations, including a call center system for customer base expansion, existing customer activation, customer information acquisition and market research execution.

### **KB Life Insurance Back-office System Established**

Agency Marketing (AM) and Tele-Marketing (TM) systems have been created for KB Life Insurance to assist the insurer in diversifying its bancassurance-focused sales channels to secure future growth engines and respond flexibly to market changes.

### **Global Futures System Created for KB Futures**

Following five months of reconstruction beginning in April 2008, KB Future's new Global Off-Line System featuring OTC derivatives settlement enables the company to better meet its customers' needs by processing tasks and providing information more promptly. Additionally, a basic framework for KB Future's foray into the fast-growing global futures market was completed in September 2008, and a new overseas futures home trading system (HTS) is set for completion by mid-February 2009. This system, equipped with a next-generation platform, easy information access and linked to Kookmin Bank accounts, allows customers to make five different global futures transactions 24 hours a day in

real time covering some 50 products.

### **OLAP System Developed for KB Credit Information**

In December 2008, development work on KB Credit Information's on-line analytical processing (OLAP) system was completed, providing more robust customer information retrieval capabilities and improved system usability.

This new system boosts work efficiency and speeds up decision-making by enabling its users to freely download and utilize information, whereas the previous system required users to request the IT Division to analyze various documents for them.

## **Plans for 2009**

### **Promoting Group IT Sharing**

To improve group-level IT investment efficiency, create synergies, fulfill requirements in line with the introduction of international accounting standards, and establish the foundation for a truly global bank, International Financial Reporting Standards (IFRS) will be adopted.

Meanwhile, a Group "CRM Mart" will be created to promote cross-selling and hybrid product development using group customer information, while an enterprise data warehouse (EDW) will be developed to establish information infrastructure in support of individual tasks. We also plan to concentrate subsidiaries' IT assets at the Yoido IT Center for integrated data center operations, and combine KB FGI and subsidiaries' risk management operations under a unified risk management system.

# Risk Management

We are concentrating our efforts on increasing the transparency of group risk, preventing risk transference between subsidiaries, and enhancing our capabilities to preemptively respond to rapid changes in the financial environment, thereby facilitating mid- to long-term strategy implementation and efficient management decision-making.



## RISK MANAGEMENT



## Risk Governance

The primary duties of the Risk Management Committee are to establish risk management strategies in accordance with decisions made by the group's Board of Directors (BOD), determine the group's risk appetite, examine the level of risk exposure and the status of risk management operations, and approve the application of risk management systems & methodologies and major improvements.

Composed of the Chief Risk Officers of KB FGI and group subsidiaries, the Risk Management Council is consultative body which deliberates and decides on matters entrusted by the Risk Management Committee, and also consults on detailed risk management-related issues of the group. The Risk Management Department carries out detailed risk management policies, procedures and processes, and is responsible for monitoring and managing group economic capital limits.

## Credit Risk Management

KB Financial Group defines expected and unexpected losses that could result from a counterparty's default or credit rating deterioration as "credit risk."

### Direction of Credit Policies

Based on management strategies, KB Financial Group formulates

appropriate credit policies in consideration of economic outlook, business environment, asset soundness trends and internal risk management capabilities. In accordance with these policies, loan management policies are executed by loan type— household, corporate or credit card —to ensure consistency in the application of credit policies.

The basic objective of KB Financial Group's credit policy is to maximize the group's value by minimizing the volatility of mid- to long-term credit costs through stable asset quality to ensure steady profit generation regardless of external economic fluctuations. Therefore, a conservative credit policy was pursued in 2008, such as exposure limits on high-risk assets to improve asset quality. Hereafter as well, the group plans to operate loan assets by managing risk within approved limits in order to minimize provisioning.

### Improving Credit Evaluation Models

Kookmin Bank develops and manages individual credit evaluation models for household, corporate, SOHO (small business owner) and credit card borrowers, and continues to raise the reliability of its credit ratings through regular improvements in these models to reflect the latest credit information and default rate.

Also, through ceaseless upgrading and improvement of credit evaluation models, the bank's corporate and SOHO models earned Basel II's Foundation Internal Ratings-Based Approach (FIRB) approval.

### Credit Risk Measuring & Monitoring

KB Financial Group operates a credit risk measuring system based on credit VaR calculations of on- and off-balance sheet assets. Credit Value at Risk (VaR) represents the maximum loss that may arise from deteriorating creditworthiness of borrowers and counterparties during a fixed period of time (typically one year) under normal banking operations. Credit VaR is computed using simulation to reflect changes triggered by credit migration and correlation of cash flow, as well as borrower default.

KB Financial Group also identifies, measures and monitors credit concentration risk in order to quantify potential losses that may additionally arise due to excessive exposure to certain individual borrowers, certain categories of borrowers, or highly correlated assets.

### Credit Review & Monitoring

Kookmin Bank conducts credit review and monitoring independent of the business groups which manage the assets of the bank. The bank improves its asset soundness by i) reviewing credit-related regulations, policies and systems; ii) analyzing the credit status of companies whose credit risk is believed to have risen due to domestic or external factors; iii) reviewing loan approval operations; iv) conducting ongoing evaluation of potentially insolvent companies; v) operating a portfolio monitoring system; and vi) continuously monitoring and reviewing the risk management status & exposure levels in relation to country risk ceilings.

### Market Risk Management

KB Financial Group defines market risk as the threat of potential loss on a trading position caused by market factors including interest rates, foreign exchange rates, equities and derivatives, and operates a robust system for effectively identifying, measuring, monitoring, controlling and reporting on these risks to which the group is exposed.

Market VaR quantifies the risks inherent in our trading account and is a key metric of market risk, representing maximum loss of a portfolio during a fixed period of time under normal market conditions within a certain confidence level. Moreover, to verify the validity of our VaR model, we conduct daily back-testing to compare the actual and hypothetical profits & losses against the VaR calculations, and rigorously analyze the results to ensure optimality.

denominated assets & liabilities, derivatives positions and principal-guaranteed trust accounts.

### Liquidity Risk Management

KB Financial Group defines liquidity risk as the risk of being unable to meet financial obligations arising from maturity mismatch and unexpected demand or supply of funds.

KB Financial Group's liquidity risk management goal is to meet all of our liability repayments on time and fund all investment opportunities even under adverse conditions, satisfy our obligations arising from customer deposit withdrawals, redemption of matured debentures, and repayments of other borrowed funds at maturity, and at the same time maintain necessary liquidity to fund loans and invest in securities.



### Interest Rate Risk Management

KB Financial Group defines interest rate risks as the risks that could reduce our net asset value or net interest income (NII) from fluctuations in interest rates. The group's principle interest rate risk management objectives are to manage assets and liabilities overall to maximize NII within acceptable risk limits, and also to minimize potential losses on net interest margin from adverse interest rate fluctuations. KB Financial Group measures and manages interest rate risk for won- and foreign currency-

### Operational Risk Management

KB Financial Group broadly defines operational risk management as all financial and non-financial risks arising in the course of operations which may adversely affect the group's capital. The objectives of the group's operational risk management include satisfying regulatory requirements, as well as cultivating a strong risk management culture, reinforcing internal controls, improving work processes and providing timely feedback to management and employees throughout the group.



In the case of Kookmin Bank, a Business Continuity Plan (BCP) has been established for the bank's continued operation in an emergency situation, an alternative worksite has been constructed, Head Office and IT staff have undergone simulation training, and the BCP framework has been reviewed.

### Economic Capital Management

Economic capital is the capital required to prevent the group's economic insolvency due to unexpected losses within the group's target confidence level. KB Financial Group measures, allocates and manages the economic capital in accordance with risk type for all financial subsidiaries, thereby maintaining group-wide capital adequacy. The Risk Management Committee determines the group's risk appetite and assigns economic capital limits by type of risk and subsidiary. Each subsidiary managements its capital within the prescribed range, while the Group Risk Management Department monitors this and reports back to the management and the Risk Management Committee.

### Stress Testing

KB Financial Group conducts stress testing to assess the group's capital adequacy and establish flexible risk management strategies in response to sudden changes in the external environment, gauging our portfolio's potential vulnerability to exceptional

but plausible macroeconomic scenarios and establishing appropriate countermeasures. In a preemptive response to the global economic crisis sparked by the U.S. subprime mortgage debacle, KB Financial Group conducts regular stress testing, reporting the results to top management and the Risk Management Committee, which use them to set risk levels, assess capital adequacy, and guide management decision-making.

### Preparation for Basel II

In accordance with the introduction of the Basel II Accord, Kookmin Bank has completed upgrading of all risk management-related operations to the highest global standards, including risk management methodologies, loan processes & systems, data management and control structure, while promoting a bank-wide risk management culture commensurate with a world-class banking institution.

### Credit Risk

In December 2007, Kookmin Bank received official FSS approval as the first Korean bank to comply with Basel II "Foundation-Internal Ratings-Based Approach" (F-IRB), and since 2008 computes risk-weighted assets.

The F-IRB approach which Kookmin Bank is permitted to use produces lower capital requirements than under the Standard approach, thus minimizing additional capital increase and reducing the cost of capital. This affords the bank greater flexibility in operating its assets and managing its returns.

### Market Risk

Kookmin Bank's internal model for market risk was granted official FSS approval in July 2005. The bank expects to apply for FSS approval in mid-2009 to replace its Parametric VaR with an Historical Simulation (HS) VaR model, which uses the existing variance-covariance approach for risk-modeling of new derivative products.

### Operational Risk

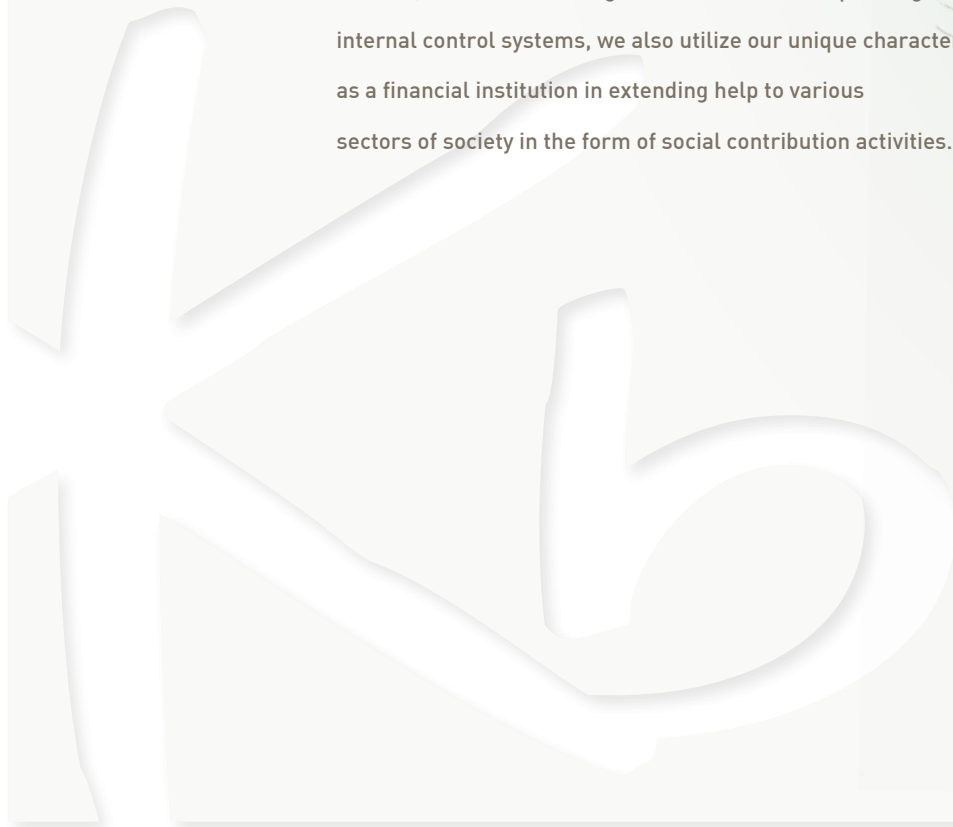
In December 2005, Kookmin Bank developed its Advanced Measurement Approach (AMA) for operational risk, and has since enhanced the system's integrity and sophistication. In November 2008, the bank's operational risk AMA earned FSS approval, and from 2009 it is expected be used as a basis for calculating risk-weighted assets.



# NEW STAR

## FOR NEW SOCIAL VALUE

KB Financial Group strives to maximize value for all stakeholders, including shareholders, customers, management & employees, and society itself. As such, in addition to our global standards of corporate governance and group-wide internal control systems, we also utilize our unique characteristics as a financial institution in extending help to various sectors of society in the form of social contribution activities.







# Corporate Governance

KB Financial Group operates five committees under the Board of Directors and strives to achieve an advanced corporate governance structure.



## CORPORATE GOVERNANCE



### Board Structure and Composition

As of March 2009, the Board of Directors (BOD) of KB Financial Group comprises three executive directors and nine non-executive directors. All board members are appointed at the General Shareholders' Meeting for a three-year term. All non-executive board members are professionals in their respective fields with extensive experience in areas such as finance, management, law, accounting and journalism. Qualifications of non-executive directors are based on relevant regulations and the group's Articles of Incorporation. Non-executive directors are nominated by the Non-Executive Director Nominating Committee.

The Chairman & CEO is elected by the Board after being nominated by the Chairman Nominating Committee,

which consists solely of non-executive directors. The Chairman of the BOD is elected from among the non-executive directors and presides over the Board and to ensure its active operation.

### Committee Activities in 2008

The BOD convened five meetings in 2008, conducting discussions on 19 resolutions and five reporting items.

At the first meeting on September 29, 2008, the day of KB Financial Group Inc.'s foundation, the committee passed resolutions approving each major regulation of the rules and forming and enforcing a regime concerning company establishment and operational matters. In the second meeting on October 30, 2008, third-quarter financial results were reported, and in the third meeting on December 3, 2008, it passed resolutions on issuing corporate bonds for a holding company and a capital increase for Kookmin Bank. In the fourth meeting on December 18, 2008, business plans and budgets for 2009 were discussed, and in the fifth meeting on December 23, 2008, an evaluation and compensation system for Board members was confirmed. Informal gatherings for discussions were held to review market environment countermeasures and key management issues.

### Board Committees

In accordance with relevant regulations, KB Financial Group's BOD maintains an

Audit Committee and a Non-Executive Director Nominating Committee. To enhance the effectiveness of the Board, there are five other committees: the Board Steering Committee, Risk Management Committee, Management Strategy Committee, Evaluation & Compensation Committee and Audit Director Nominating Committee. All committees are chaired by non-executive directors, and members of the Audit Committee, Evaluation & Compensation Committee, Audit Director Nominating Committee and Non-executive Director Nominating Committee are composed of non-executive directors.

#### **Audit Committee**

As an independent body consisting of non-executive directors, the Audit Committee evaluates the appropriateness and effectiveness of group activities and internal control systems. It provides insight into vulnerable areas and improvement plans, and takes appropriate ex post facto action. The Committee consists of five non-executive directors possessing qualifications set forth in KB Financial Group's regulations and Articles of Incorporation, and includes financial professionals pursuant to the Articles of Incorporation and relevant laws.

#### **Board Steering Committee**

The Board Steering Committee consists of the CEO, Chairman of the Board of Directors and the Chairpersons of each subcommittee under the Board of Directors, and is chaired by the Chairman of the Board. It oversees improvement of the corporate governance structure and operational efficiencies of the Board and Committees. In addition, it is

responsible for developing & monitoring training programs for directors, and contacting shareholders and collecting issues and concerns.

#### **Management Strategy Committee**

The Management Strategy Committee establishes the group's vision and mid-to long-term strategies, annual business plans, new strategic initiatives such as new alliances, and major financial strategies. The Committee consists of five non-executive directors and two executive directors. Through the two meetings held in 2008, deliberation and resolutions on the 2009 business plan and budget bills were conducted, and discussions on key business initiatives were held.

#### **Risk Management Committee**

Representing the Board of Directors, the Risk Management Committee acts as the top decision-making unit in setting risk management strategies and policies to identify, measure, monitor and control risks associated with the company and subsidiaries' various business transactions. It is composed of four non-executive directors and an executive director. Through the two meetings held in 2008, it enacted risk management regulations, devised procedures for the Risk Management Council, determined the group's 2009 risk appetite, and passed a resolution on the 2009 economic capital limit for the group. Furthermore, the Committee reviewed the group's various risk-related issues.

#### **Evaluation & Compensation Committee**

The Evaluation & Compensation Committee consists of four non-executive directors. It establishes the basic principles of evaluation and compensation structures, reviews


evaluation and compensation of key management such as directors, and assesses the succession of the Chairman & CEO and non-executive directors. During the six committee meetings in 2008, a system was established focusing on performance-oriented evaluations as a core principle of annual compensation for the Chairman & CEO, Vice Chairmen, and President of KB FGI.

#### **Plans for 2009**

In 2009, the BOD will make every effort to establish an advanced corporate governance structure based on international standards and adhere to principles of corporate governance stipulated in domestic law and by the New York Stock Exchange (NYSE). While promoting wider understanding between the Board and the executive management team, the group will strive to establish a progressive corporate governance structure.


# Board of Directors

## Non-Executive Directors




**Dam Cho**

- Professor, Chonnam National University
- Chairman, Board of Directors
- Member, Board Steering Committee
- Member, Audit Committee
- Member, Risk Management Committee




**Jacques P.M. Kemp**

- Vice Chairman, Insurance & Investment Management, ING Asia/Pacific
- Member, Management Strategy Committee
- Member, Risk Management Committee




**Suk-Sig Lim**

- Professor, University of Seoul, Dept. of Bus. Administration
- Member, Audit Committee
- Member, Risk Management Committee




**Bo-Kyung Byun**

- CEO, Kolon I'Net Co., Ltd.
- Chairman, Evaluation & Compensation Committee
- Member, Board Steering Committee
- Member, Audit Committee



**Sang-Moon Hahm**

- Dean, KDI School of Public Policy
- Chairman, Management Strategy Committee
- Member, Board Steering Committee
- Member, Risk Management Committee



**Han Kim**


- Chairman, Uclick Co., Ltd.
- Member, Management Strategy Committee
- Member, Evaluation & Compensation Committee






**Chee-Joong Kim**

- Presiding Lawyer, Barun Law Firm
- Chairman, Audit Committee
- Member, Board Steering Committee
- Member, Evaluation & Compensation Committee



**Jae-Mok Jo**

- CEO, ACE Research Center Co., Ltd.
- Member, Management Strategy Committee
- Member, Evaluation & Compensation Committee



**Chan-Soo Kang**


- Chairman, Kang & Company
- Chairman, Risk Management Committee
- Member, Board Steering Committee
- Member, Audit Committee

**Executive Directors**



**Young-Key Hwang**

- Chairman & CEO, KB Financial Group Inc.
- Member, Board Steering Committee
- Member, Management Strategy Committee



**Chung-Won Kang**

- Vice Chairman, KB Financial Group Inc.
- Member, Management Strategy Committee



**Jung-Hoe Kim**

- President & COO, KB Financial Group Inc.
- Member, Risk Management Committee

# Ethical Management

KB Financial Group is developing an ethical program to foster awareness of ethical management and the importance of corporate social responsibility, while building consensus through management/staff training, and studying preemptive measures against unethical behavior.



## ETHICAL MANAGEMENT



### KB Financial Group "Code of Ethics" & Ethical Management in Practice

KB Financial Group has established a Code of Ethics and is preparing systematic standards of ethical conduct for all employees and management, ensuring fairness in terms of benefits and advantages for shareholders. To cultivate group-wide consensus on ethical management, we operate an "Ethical Management Center" and provide programs encouraging ethical management practices.

### Internal Audit Framework & Group-wide Internal Control Systems

KB Financial Group has established directions for internal audits to facilitate its successful launch and maximize shareholder value, devising an operational framework for internal auditing that prescribes the focus, sphere and timeframe for audits of the KB FGI and the subsidiaries. To create a culture of internal controls in the early stages of the company's establishment and disseminate an awareness of internal controls among all employees and management, we conducted departmental audits in areas with high potential for ethical issues to arise. Through combined audits of subsidiaries, we review the appropriateness of internal control systems and provide relevant consulting.

### Compliance

Internal controls are enacted in order to instill a “full-compliance” spirit of all management and employees of KB Financial Group. Internal controls are enacted to instill a “full-compliance” spirit among all management and employees of KB Financial Group. Furthermore, from a compliance perspective, we examine and deliberate on the appropriateness of regulatory & policy revisions, mediation of major legal actions, development and execution of new business, and concluding of contracts.

#### Internal Control over Financial Reporting

KB Financial Group implemented internal control over financial reporting in accordance with Section 404 of the U.S. Sarbanes-Oxley Act and domestic internal accounting regimes, appointed an Internal Control Officer, created an organization to manage related affairs, and designated Internal Control Officers in all departments. We also seek to lead by example, with our management heading efforts to foster keener awareness and practical implementation of internal controls.

#### Designing Internal Control Over Financial Reporting

KB Financial Group has established internal controls in consideration of the five components of COSO (control environment, risk assessment, control activities, information and communication, and monitoring), the global standard for internal controls. Since KB FGI’s establishment, we began formulating a systematic approach to identify, prevent and document potential

distortion of financial reporting, while benchmarking exemplary cases of other companies in this area, and assigning responsibility for internal control over financial reporting matters to managers and Internal Control Officers within each department.

#### Operating & Evaluating Internal Control Over Financial Reporting

KB Financial Group’s internal control over financial reporting is practiced in the course of operations by the Board of Directors, the Audit Committee, management, mid-level managers and staff-level employees. Management designed and evaluated the group’s internal control over financial reporting on the basis of domestic Internal Accounting Control System (IACS) standards and U.S. Statement on Auditing Standards (SAS). With regard to aforementioned IACS standards and others, the group’s internal control over financial reporting as of December 31, 2008 was determined to be effectively structured in all material respects.

#### Internal Control Plans for 2009

In 2009, we will strengthen group-wide establishment of internal controls through preemptive and preventive inspections and full-time management system for subsidiaries. For subsidiaries requiring improved internal controls, we will carry out and augment comprehensive audits and monitor social concerns by theme. Moreover, in response to new auditing requirements including the introduction of IFRS and enforcement of strengthened customer due diligence, we will concentrate

inspections on high-risk areas.

To establish a full-time subsidiary management system, we will form a holding company/subsidiaries audit & internal control affairs council and a risk management inspector system, and create a channel for gathering information on incidents or other important issues from subsidiaries.

Additionally, KB Financial Group will develop an End-user Computing (EUC) system to steadily improve internal control over financial reporting processes and provide training programs to enhance the professionalism of our staff, enabling us to effectively and efficiently create and operate internal controls that meet global standards.

# Shareholder Relations

KB Financial Group puts the rights of shareholders first through ongoing efforts to enhance shareholder value, such as safeguarding their voting rights, providing information on General Shareholders' Meetings, and ensuring maximum fairness and transparency.



## SHAREHOLDER RELATIONS



### Major Activities for Protecting Shareholders' Rights

#### Written Absentee Voting System Respects Shareholders' Rights

For shareholders who cannot participate in shareholders' meetings, KB Financial Group has implemented a written absentee voting system. Though rare for a listed company with a vast number of shareholders, KB Financial Group respects the voting rights of every

shareholder by mailing and collecting written ballots prior to the General Shareholders' Meeting (GSM).

#### Provision of Information on Convocation of the GSM

Two weeks before the GSM, KB Financial Group mails reference materials related to the meeting's agenda to all shareholders. These materials include appointments to the BOD, as well as the name, career background and recommender of the pertinent director. A total of 118,816 shareholders attended KB Financial Group's 1st General Shareholders' Meeting, each receiving necessary information for the exercising of their voting rights. In accordance with relevant regulations, shareholders were notified of the upcoming convocation of the GSM two weeks in advance through two public notices placed in two daily newspapers. We also delivered public notices via its website.

#### Provision of Information on Decisions of the GSM

KB Financial Group convenes the GSM to allow all shareholders to express their opinions freely, and for the benefit

of shareholders unable to attend the meeting, a video of the proceedings is uploaded to the group's website.

#### Provision of Management Reference Materials

To guarantee shareholders' right to information, management reference materials related to GSM agendas and non-executive director activities are provided two weeks prior to the meeting at the group's head office and on its website.

#### Ensuring Operational Transparency & Trust

By not specifying exclusion clauses on cumulative voting in its Articles of Incorporation, KB Financial Group serves as a model for ensuring transparency of and trust in GSM operations. Additionally, KB Financial Group maintains required levels of transparency of and trust in GSM operations as stipulated under the Commercial Act and other relevant regulations.

# Corporate Culture

By improving personnel systems of subsidiaries and maximizing intra-group HR synergies, KB Financial Group promotes group-wide “One-firm” consistency and upgrades HR competencies to ensure our long-term growth.



## CORPORATE CULTURE



2008 Results

### HR Management

KB Financial Group created new HR systems to promote a “one-firm” strategy to strengthen group-wide solidarity, improve competitiveness and generate synergies. Kookmin Bank categorizes and tailors personnel systems by general, professional and specialist job positions. In 2008, it reinforced its performance-based HR regime by implementing the Branch Manager Assessment System and upgrading the Professional Employee Management System, while optimizing personnel costs and HR structure by outsourcing non-core work processes and conducting the “2008 One-Time Special Early Retirement” program.

### HR Development

KB Financial Group is strengthening HR support capabilities and group-level competitiveness by cultivating leaders in the respective business fields of each subsidiary and financial niche specialists through internal & external training and job skills development. Kookmin Bank operates external training programs, including domestic & overseas MBA courses, and the “Advanced Financial & Corporate Analysis” program. In 2008, it launched the “KB Financial MBA” course and expanded the scope of other training programs to ensure a systematic learning process. For these efforts, the Bank won the “2008 Talent Management Prize” in the Korea Management Quality Awards organized by KMAC, and other awards.

### Labor-Management Relations

KB Financial Group and its subsidiaries operate a Labor-Management Council to foster participation and cooperation. In 2008, Kookmin Bank’s unified labor union marked its fourth year of operation, pooling its energies to ensure successful transition to a holding company structure, and agreeing unanimously to a salary freeze in light of the current domestic and

global economic situation. Additionally, for the first time in the financial sector, non full-time staff were admitted into the union, creating a foundation for labor-management stability and workforce harmony.

### Plans for 2009

KB Financial Group will generate group-wide HR synergies through joint recruitment & training, staff exchanges, and HR standards and processes, enabling us to respond flexibly to market changes. Flexible personnel management systems will be implemented, and efforts to improve subsidiaries’ HR support capabilities will receive top priority in order to achieve our vision of becoming one of Asia’s Top 10 financial leaders. Building upon accumulated mutual trust and harmony, we will further strengthen labor-management ties through cooperation programs and close communication, and create a new labor-management culture aimed at improving productivity and honoring our responsibility to society as a world-class financial group.



# Social Contribution

KB Financial Group emphasizes youth development in its social contribution activities. In 2008, the group received its third consecutive Grand Prize in the Youth Welfare category at the Social Contribution Corporate Awards, and earned top honors at the Mecenat Awards.



## SOCIAL CONTRIBUTION



With a social contribution philosophy of "Doing our best for our customers and neighbors," KB Financial Group utilizes its unique strengths and capabilities to extend help and support for beneficiaries' real-life needs, setting high standards of excellence in corporate responsibility as global financial company.



### **Chairman Hwang Young-key Appointed Head of Seoul Scholarship Foundation.**

Hwang Young-key, Chairman and President of KB Financial Group, has been appointed executive director of the Seoul Scholarship Foundation. The Foundation was established to coordinate several scholarship organizations in Seoul and provide tailored scholarship programs for students from low-income families.



### **Vice Chairman Kang Chung-Won Appointed Commissioner of "C40 Group"**

Kookmin Bank CEO Kang Chung-Won was appointed to the Board of Commissioners

of the C40 Climate Leadership Group. The C40 Group comprises the largest cities which produce 75% of the world's greenhouse gases. The city of Seoul will host the C40 Summit in May 2009.

### Kookmin Bank

#### **Youth Support Programs**

Kookmin Bank operates various social contribution activities focused on youth talent development, including the establishment of several educational & training programs, such as "Kookmin Bank English Camp," "Kookmin Bank Study Star" run by volunteer university students, and "KB Happy Meals" to provide free meals for 1,800 deprived children in 101 primary & secondary school nationwide. Furthermore, the Bank supports local libraries in 10 regions around the country and KB Scholarship for Exchange Students, offering support and opportunities to study abroad for university students from low-income families.

#### **Promoting Culture & the Arts**

Kookmin Bank conducts various Mecenat (corporate support for the arts) activities, such as providing financial assistance for the renovation of "KB Youth Sky Theater," part of the National Theater and the first-ever open-roof circular theater in Korea. For this effort, Kookmin Bank received the Grand Prize in the "2008 Mecenat Awards" sponsored by the Korean Business Council for the Arts and *Maeil Business Newspaper*.

#### **Developing Global Social Contribution Activities**

Kookmin Bank performs ongoing global

social welfare activities, such as "Sharing Love of Hangeul" (Korean language education) in Vietnam, Mongolia, Indonesia, and Kazakhstan, and the university student volunteer group "RaonAtti" comprising nine regions in seven Asian countries including Cambodia and East Timor. It also carried out volunteer home-building programs to support local residents in the Siem Reap region of Cambodia, organized a New Year's Day event for foreign workforce, and engaged in other global social contribution activities.

#### Strengthening Community-oriented Social Volunteer Activities

All Kookmin Bank employees take part in social volunteer groups and charitable activities. On "KB Volunteer Day" in April 2008, 18,150 staff participated in volunteer programs at 1,324 locations throughout the country, and hosted year-end "Kimchi Sharing" and "Heating Briquette Sharing" events. In recognition of its efforts, Kookmin Bank won the Silver Award in the "National Volunteers Festival" in July 2008.

#### Support for Sports Activities

Kookmin Bank sponsors a basketball team, a soccer team and a marksmanship team. With an eye toward promoting Korean sports in the international arena, Kookmin Bank was proud to be an official sponsor of the Korean national baseball, basketball and volleyball teams at the 2008 Beijing Olympic Games. In addition, Kookmin Bank provides active sponsoring for young figure-skating talents, weekend youth soccer & basketball games, and soccer matches for the disabled.

#### KB Life Insurance

In March 2006, KB Life Insurance formed a volunteer group called "KB Love Sharers" with which it raises funds through various volunteer activities and events to support study groups for children and youth in need.

#### KB Asset Management

Since 2006, KB Asset Management employees have visited the Sung-Mo Elderly Care Home operated by the Catholic Social Welfare Association twice a month to provide free meal service. With a total of 57 visits, each KB Asset Management employee has made three visits on average.

#### KB Real Estate Trust

Since 2005, KB Real Estate Trust employees take an active part in various social volunteering programs under name "Mil-Al Service Corps." In 2008, all employees visited 12 welfare facilities including children's welfare centers and elderly care homes. With visits conducted once every quarter, the average KB Real Estate Trust employee logs over 20 hours annually for this worthy cause.

#### KB Investment

KB Investment concentrates its social responsibility efforts on caring for neglected members of the community, lending a helping and a warm heart to

the elderly in care homes through house-cleaning and kimchi-making activities twice a year.

#### KB Futures

Every year, all employees of KB Futures participate in the "Hyo (filial piety) Festival" organized for elderly citizens and sponsored by the Korea National Red Cross. KB Futures also offers a financial training course on foreign exchange risk management for SMEs in association with Small and Medium Business Administration.

#### KB Credit Information

KB Credit Information raises funds through an employee salary donation program and provides basic necessities for families on low-income support, young and homeless, and elderly people living alone. It also delivers free meals to treatment facilities and low-income disabled people.

#### KB Data Systems

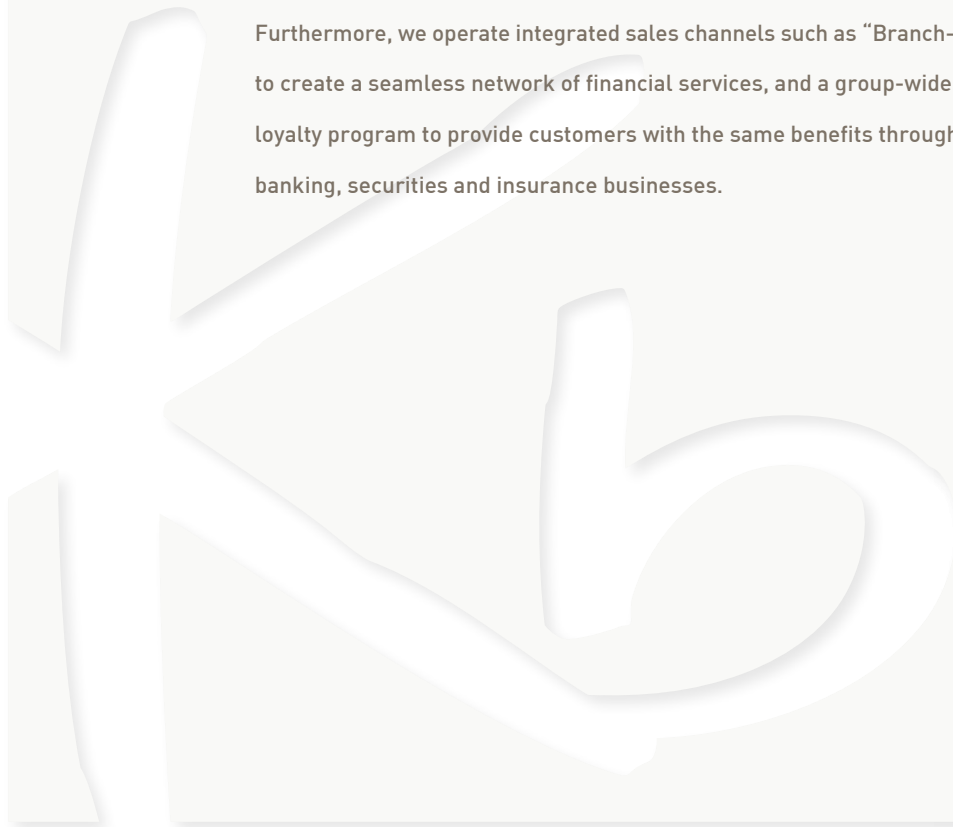
All employees of KB Data Systems contribute a percentage of their salary to the company's social welfare charity fund, "Fruit of Love," and to the leading international organization protecting children's rights, "Save the Children," donating KRW 15 million to each program.

# NEW STAR

## FOR NEW CUSTOMER VALUE

To provide products and services that maximize customer value, KB Financial Group promotes synergy creation strategies among all subsidiaries, including hybrid financial product development and cross-selling.

Furthermore, we operate integrated sales channels such as “Branch-in-Branch” to create a seamless network of financial services, and a group-wide customer loyalty program to provide customers with the same benefits throughout our banking, securities and insurance businesses.







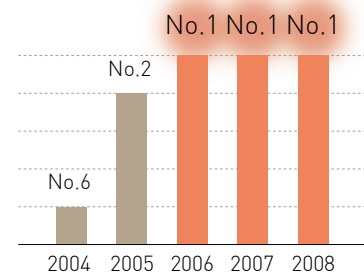
# KB Kookmin Bank

Korea's largest bank and the first to be ranked No. 1 in customer satisfaction for three consecutive years, Kookmin Bank will initiate its "New Start" management strategy in 2009 through profit-centered cost management, strengthened risk management, customer-focused sales activities, and accelerated synergy creation.



**Sang-In Baek**, Master PB  
(Deputy Director, GOLD&WISE Gwangjang  
PB Center, Kookmin Bank)

Thanks to ongoing improvement in customer service, Kookmin Bank was ranked No.1 in the National Customer Satisfaction Index (NCSI) for the past 3 years.







## Retail Banking

Korea's largest bank with 26 million customers, Kookmin Bank strengthened core growth engines in 2008 and launched various new products to attract future customers, while managing all deposits stably through a flexible interest rate management approach that reflects financial market conditions and secures appropriate margins.

The Bank also undertook system improvements and staff training to enhance consumer protection by eliminating improper sales in the course of marketing activities. Sales channels were diversified with the implementation of the industry's first "Geographic-CRM" system and a next-generation internet banking platform.

## 01. 2008 Results

**Improving Area Marketing with G-CRM**  
To strengthen area marketing capabilities, Kookmin Bank introduced the industry's first GIS-based Geographic-CRM (G-CRM) system at all branches. This enables the Bank to devise region-oriented marketing strategies by combining and analyzing existing internal customer information and external information including geographical features. The Bank also reinforced staff CRM training at the job position and departmental level to enhance customer-tailored product sales competencies, and implemented the "CRM Mileage System" to effectively assess CRM performance and provide

appropriate rewards.

## Prioritizing Asset Growth & Customer Convenience

The Bank created 55 new branches (retail, corporate and PB) in 2008, increasing its profile in prime market locations. In response to market changes and to maximize branch network efficiency, it relocated or realigned 35 branches and combined & reorganized another 22. "Branch-in-Branch" operations have increased operational efficiency and pared costs, while improving customer convenience and creating new revenue sources. Process improvements were made in the area of ATMs to enhance customer convenience, including the introduction of customer-determined daily withdrawal & account transfer limits and the installation of the industry's first personal ATMs (P-ATM).

## Expanding Customer Base with Diversified Marketing

Kookmin Bank conducted marketing and promotional activities throughout the year to attract more premium customers and enhance the quality of its customer base. Some 66,000 bank customers were invited to various cultural events designed to promote long-term VIP customer loyalty and strengthen CRM.

For future market expansion, the Bank held the KB B-Boy World Masters and the KB Campus Star Concert to reinforce marketing aimed at teen-aged customers, the National Gateball Tournament for older customers, and other promotional activities. It also launched the industry's first website devoted to cultural topics, providing a range of non-financial services.

## Setting Highest Standards of Customer Satisfaction

Kookmin Bank's efforts to strengthen bank-wide CRM and raise employee service levels paid off handsomely in 2008, as the Bank earned its third consecutive No.1 ranking in the Korea Productivity Center's National Customer Satisfaction Index.

The Bank also topped the Banking Service category in the Korean Customer Satisfaction Index (KCSI) and the Korea Net Promoter Score (KNPS), both sponsored by KMAC, for two consecutive years.

## Customizing New Hit Products

Kookmin Bank developed 35 new fund products, including the KB Korea Elite 20 Stock-type Fund, and 16 new bancassurance products, while eradicating instances of improper sales practices and creating a sound investment culture through rigorous sales staff training and investor education.

Kookmin Bank strengthened credit loan operations by expanding prime retail credit loans, including the KB Payroll Deposit Retail Loan. It also launched new loan products, including the KB Collateralized Mortgage Loan/KB Collateralized SOHO Loan, combining an interest-rate option (cap/collar) to hedge against interest rate risks with a small-office/home-office loan, and the "KB Housing Pension Loan" for elderly customers. The total volume of household loans rose by KRW 8.3 trillion over the previous year. Profitable loan asset management contributed to a 50 basis point improvement in the Bank's NIM on new loans.

Kookmin Bank recorded impressive sales results throughout its wide lineup of financial products. The Bank's family-themed "Family Love Free Savings Deposit" drew 500,000 accounts and KRW 1 trillion in sales in the first seven months after its launch, while the "KB Star\*t Deposit" aimed at young savers attracted over 850,000 account-holders in its first year.

The new "Hub Time Deposit" account commemorating the founding of KB Financial Group took in over KRW 1 trillion in its first nine days. Combining time deposit and insurance service from KB Life Insurance, this product demonstrates the potential synergy creation of KB Financial Group.

### Leading the Way in e-Banking

Kookmin Bank's e-Banking service was the first in the financial sector to exceed 10 million customers in 2007, and the first to reach over 2 million mobile banking customers, creating the largest online customer base of any domestic bank.

Kookmin Bank expanded e-Banking operations by converting them to a marketing-based online channel, receiving top honors in three categories at Web Award Korea 2008, and its call center earned "Korea Service Quality" recertification.

## 02. Plans for 2009

### Creating Customer Value with Top CS Brand Power

In 2009, Kookmin Bank plans to reinforce the evaluation & monitoring of customer satisfaction at all branches and the head office, resolve factors causing frequent customer complaints, stage customer appreciation events by customer segment, and conduct social contribution activities. It will also enhance customer service capabilities through systematic and customized at the "KB CS Academy" for core Customer Satisfaction (CS) personnel, and expand the "Cyber CS" education program.

### Utilizing Bank-wide CRM to Strengthen Marketing

To provide customized asset management services and prevent instances of improper sales in accordance with relevant regulations, Kookmin Bank will develop an integrated financial planning system to be utilized by the Bank's branches. It will refine its product recommendation model in line with changes in the financial environment and link online & offline channels for CRM activities to increase product sales opportunities and boost revenues. Cross-selling of other subsidiaries' products will also be strengthened to generate maximum group-level synergies.

### Growing Prime Customer Base & Supporting Branch Marketing

Promotional activities targeting all customers will be undertaken to increase the Bank's market share, and exemplary marketing practices of advanced foreign financial institutions will be monitored continuously. To increase the number of prime customers, the Bank will conduct PR campaigns aimed at university students and continue to operate its "Young KB" online channel geared toward young customers, thereby raising Kookmin Bank's brand value and reinforcing marketing branch-level support.

### Optimizing Branch Network & Diversifying Branch Models

To secure competitive positioning by region and customer group, Kookmin Bank will open new branches in high-growth areas including large-scale residential development districts, while maximizing the efficiency of its sales network by relocating, consolidating and realigning existing branches in line with market changes. It will also expand "branch-in-branch" operations and maximize synergies between service channels, improve the effectiveness of marketing efforts, and enhance customer convenience.

### Solidifying Our Lead in Online Channels

Kookmin Bank will strengthen its e-Banking marketing capabilities through online product expansion and customer segmentation, and grow its mobile banking customer base by installing ATMs with Universal Subscriber Identity Modules (USIM) at all branches. It will also roll out an online personal banking service for corporate employees and a bookkeeping service for business owners, pioneering new frontiers of the online market. Other measures include maximizing the brand value of its call center and broadening the scope of financial channels.

## Corporate Banking

In addition to its traditional corporate banking services like corporate loans, Kookmin Bank is broadening its market position with a full range of foreign exchange, investment banking, derivative products and transaction banking services based on cash management service (CMS).

Notably, the Bank ranked No.1 in syndicated loans through its efforts to grow its investment banking operations in order to expand sources of non-interest income. It also introduced "Cyber Branch," the industry's first CMS system customized for corporate institutions, which now boasts the largest corporate customer base in Korea.

## 01. 2008 Results

### Pursuing Profit-based Qualitative Growth

Faced with a challenging market environment in 2008, Kookmin Bank pursued profit-based growth. The Bank took internal measures to elevate net interest margins, expanded Grey Zone loans and strategically managed group loans to increase its credit spread. Furthermore, key performance indicators (KPI) including critical business issues and weighted scores were utilized to maximize management efficiency.

### Strengthening Early Risk Management

Despite weakening fundamentals among SMEs and corporate restructuring in construction and shipbuilding, Kookmin Bank was able to secure superior asset soundness by executing loan portfolio strategies well-suited for changes in the corporate banking market, and by taking preemptive risk management measures.

The Bank minimized the level of its loan-loss provisioning and non-performing loans by strengthening credit management procedures for corporate customers with higher risk of default, such as shortening loan-term extensions and reducing portfolios for borrowers in economically sensitive industries, and

curtailing unused credit lines.

### Expanding Platform for Global Growth

Kookmin Bank expanded KB Financial Group's global growth platform through the "KB Triangle Network" connecting the CIS, China and South Asia. In 2008, it entered international investment banking markets with new offices in Beijing, China and Almaty, Kazakhstan.

The Bank diversified revenue sources through overseas market opportunities offering high growth potential, including development of retirement housing facilities on Australia's Gold Coast. Strengthening partnerships with foreign banking institutions, Kookmin Bank formed cooperative ties with SMBC of Japan and BBVA of Spain, and signed an MOU for business cooperation with ING Group of the Netherlands in 2008.

### Increasing IB Market Share

Despite stagnation in the domestic SOC market, Kookmin Bank acted as lead manager of Phase 2-3 of the Busan New Port project and fortified its SOC project business through participation in the infrastructure-focused "Korea BTL Fund" and a new & renewal energy fund.

The Bank was lead arranger for a total of 27 major real estate PF projects in 2008, including the underwriting of large-scale M&A deals for C&M, Hi-Mart and Korea Express, as well as the Jamsil Mixed-use Development Project in Seoul, and ranked the No.1 lead manager of domestic syndicated loans in the Bloomberg League Table. It also strengthened synergy creation with KB Investment & Securities.

### Attracting Prime Customers with New Products & Promotions

Kookmin Bank's small office/home office (SOHO) loans grew by KRW 5.6 trillion in 2008. This increase is attributed to the development of new products, such as "KB SOHO Credit Loan" designed to foster SOHO customer loyalty, as well as strengthened SOHO marketing activities that included the Success



Together Program (STP). The Bank also held an invitational seminar targeting quality SOHO customers. The event drew positive reviews from the 630 prime SOHO customers who attended expert lectures on issues from SME management to lifestyle & culture.

### Reinforcing Status as CMS Specialist Bank

Reinforcing its position as the industry's foremost CMS specialist bank, Kookmin Bank's "Cyber Branch" CMS system—the first of its kind in Korea—had a total of 1,800 corporate clients as of the end of 2008, while boasting the industry's largest customer base of some 25,000 CMS users.

The Bank has also made qualitative advances through the development of specialized CMS products, including an in-house banking system for public institutions & large corporations and a PF cash management system for construction companies. It also offers global CMS convenience by linking overseas network with the head office, providing clients global banking services via transactions through its overseas branches.

## 02. Plans for 2009

### Maximizing Income & Fortifying Risk Management

To improve profitability, Kookmin Bank plans to improve loan spreads by increasing high-margin interest-bearing assets. It will also strive to expand its non-interest income including corporate CMS fees and guarantee fees to accelerate profitable growth.

The Bank will manage non-performing loans at minimum levels through systematic credit management, and its "Early Risk Management Mobile Support Unit" will inspect and assist credit management activities at branches.

### Building Prime Corporate Customer Loyalty

The Bank will host promotional events & activities to foster amicable customer relations, induce new customers, and provide information to target customers. Examples of such activities include the KB Family Business Succession Planning Service, the Corporate Consulting Service, and the "CEO Community." Through these programs, Kookmin Bank seeks to induce 3,500 new prime corporate customers to its roster in 2009, while enhancing customer loyalty.

### Enhancing Global Competencies

Supported by strong results in 2008, Kookmin Bank will examine overseas business opportunities in regions offering high growth potential. Increasing its equity stake in Kazakhstan's Bank CenterCredit (BCC) to secure managerial rights, Kookmin Bank plans to transfer its core competencies to BCC and capitalize on the diverse opportunities in the CIS. The Bank also intends to broaden its presence in Southeast Asia with the establishment of a local subsidiary in Cambodia and the opening of a branch in Suzhou, China.

### Sharpening Our Investment Banking Edge

Kookmin Bank will expand its role as Korea's investment banking leader by honing its capabilities in real estate PF and maintaining market dominance in the SOC sector, and at the same time pursue synergies with KB Financial Group subsidiaries including the IB division of KB Investment & Securities to diversify its business base. The Bank will generate maximize income from selective advances into overseas SOC and real estate PF markets, while fortifying its position in the domestic IB market to prepare a stable foundation for its quest to become Asia's leading bank.

### Attracting CMS Customers and Diversifying Services

Kookmin Bank will endeavor to attract core corporate customers with its online In-house Banking System and "Cyber Branch" program. Meanwhile, by expanding the scope of CMS from simple transactions to business process automation, it seeks to enhance corporate customer convenience and increase their transaction intensity. The Bank will also conduct cross-selling of various financial products to strengthen existing customer relationships, while reflecting such cross-selling operations in its CMS system to secure competitiveness in the midst of financial market changes.

### Maximizing Group Value Creation through Synergies

Kookmin Bank plans to organize a campaign to promote synergy goals for 2009, use the KB-WiseNet webpage to activate customer information exchanges with other subsidiaries, strengthen branch support for synergy target-customer data sharing, and maximize KB Financial Group value creation.

### Devising Loan Portfolio for Sustainable Growth

The Bank will conduct targeted marketing on companies in industrial complexes, expand its market share among companies with substantial assets, and improve the quality of its credit portfolio.

It will also attract new customers in future-oriented sectors such as green growth industries (new & renewable energy, bio-tech, new technologies, etc.), lend its support to the "Green Finance Promotion Foundation" and green product promotions like "Green TFTs," and stake out an early lead in this up-and-coming business area.



With 9.3 million credit cardholders, 9.0 million check cardholders and total card sales of KRW 57.3 trillion in 2008, Kookmin Bank has established its leadership position in the competitive Korean credit card market.

The Bank continues to hone its competitive edge with an extensive card product lineup to meet diverse customer needs and the industry's most advanced customer management systems.

## 01. Market Environment in 2008 & Market Outlook for 2009

### Increasing Transactions amid Weakening Profitability

Credit card transaction volume rose in 2008 as small & medium-sized late entrants pursued aggressive growth while large-sized forerunners scrambled to defend their market shares, resulting in new market creation and overall market expansion. However, lower commission rates for merchants since the end of 2007, the rising cost of funds due to financial market uncertainty, and growing credit loss ratios from the second half of 2008 hurt profitability.

Thus, card companies focused on modifying and differentiating marketing strategies, and strived to secure a platform for sustained growth.

### Expanding Profitable Management in 2009

The outlook for the Korean credit card market in 2009 is positive in view of steadily increasing credit card use as a proportion of personal expenditure, and the development of new card markets such as public institutions. Nevertheless,

the rate of growth is expected to taper off as the economic downturn, rising job insecurity, and declining real incomes reduce consumer spending, and as card companies focus on profitability and pursue conservative risk management policies to reduce credit losses.

## 02. 2008 Results

### Expanding Customer Base and Upgrading Customer Management

Thanks to its competitive card product lineup, strong sales platform, and diversified customer channels, Kookmin Bank expanded its card customer base significantly in 2008, attracting 1.47 million new cardholders, about 90,000 members more than it gained in 2007.

In addition, in order to secure a differentiated competitive advantage amid heated competition in the credit card market, the Bank upgraded its CRM system and merchant loyalty system, creating a network between customers and merchants for intensive customer management.

### Converting to Asset-based Business Model

In order to overcome the limitations of the transaction-based card business model and secure a stable revenue structure, Kookmin Bank is converting its business model to an asset-based business model focused on its PayPlan revolving credit service.

As a result, the total number of PayPlan customers reached 4.0 million, a 59% increase from 2007, with assets rising to KRW 2.4 trillion, a 50% increase from the previous year's level. Also, card loan assets climbed 24% from the previous year's balance to KRW 2.9 trillion due mainly to strengthened marketing efforts, which eventually contributed to stable revenue generation.

### Building a Competitive Card Lineup

In 2008, Kookmin Bank broadened

its lineup of credit cards that meet customers' diverse needs, launching "SK LPG Save KB Card," "S-Oil KB Card," "KB Fn Save Card," "it Play Card," "it Style Card" and others. The Bank also provided enhanced services for its mainstay card product, "KB Star Card," and introduced the world's first multimedia card, "&d Card," further strengthening its competitive card lineup.

"KB Star Card, Leather Style" product earned its second consecutive Good Design Mark in the Communication Design category of "2008 1st-Half Good Design Awards" hosted by the Ministry of Knowledge Economy.

### Cultivating New Markets and Capturing Growth Markets

In 2007, Kookmin Bank introduced a series of social service voucher cards, including the "Senior Citizen Support Voucher Card," the "Housekeeping/Nursing Voucher Card," the "Small Vehicle Gas Tax Refund Card," and the "Beautiful Mommy Card" for expectant mothers. These innovative cards represent a new source of revenues and a potential future growth engine. Furthermore, the Bank worked aggressively to capture a larger share of the high-growth check card and corporate card markets, recording 31% growth in card usage over 2007. Owing to this performance and a 13% increase in retail card usage, total card usage rose 6.5% over the previous year's level.

### Major Card Products and Services

- **Steady Seller:** KB Star Card, KB Pointree Card, Gas Station Cards (SK, GS Caltex) etc.
- **Specialized Cards for Customers & Needs:**
  - Gas Stations: SK Smart KB Card, SK LPG Save Card, GS Caltex Smart Save KB Card, S-Oil KB Card
  - Airlines: Korean Air Skypass Card, Asiana Airlines KB Card
  - Shopping & Dining: E-mart KB Card, The CJ KB Card
  - Cinema: KG CGV Card, KB My One Card
  - WIP Customers: KB TEZE Card, KB ROVL Card
  - Female Customers: KB e-Queen Card
  - Senior Customers: KB Golden Life Card
  - Leisure & Travel: KB 5-Rak (Orak) Card, e-Leisure KB Card, KB Everland Card, Hana Tour KB Card
  - Young Customers: it Phone Card, it Study Card, it Play Card, it Style Card
  - Finance: KB Fn Save Card



### 03. Plans for 2009

#### Sustaining Profitable Growth

In 2009, Kookmin Bank's Credit Card Group plans to achieve substantial growth through profitable management based on stable revenue generation, responding to economic stagnation with aggressive credit risk management, and managing its portfolio according to risk levels by product.

Moreover, the Bank will reinforce customer loyalty and brand value by implementing an omnidirectional customer management program. It plans to achieve this by developing a comprehensive Customer Experience Management (CEM) that integrates its current CRM system, upgraded through steady investments, with its Partner Relationship Management (PRM) for merchants. Kookmin Bank will also actively stake out an early lead in high-growth market niches, such as prepaid cards, check cards and corporate cards, and cultivate public institutions and new-technology business fields as a future growth engine for card operations.

### Capital Markets and Treasury

Leveraging its strong reputation and reliability as Korea's largest bank, Kookmin Bank continues to expand its market dominance in the areas of treasury, trading, and sales. Armed with solid capabilities accumulated over many years in the capital markets, Kookmin Bank has strengthened liquidity management amid the global

credit crunch and worldwide economic downturn, and secured diversified external funding sources to build a foundation for stable growth.

### 01. 2008 Results

#### Boosting Treasury Function & Diversifying Funding Sources

In the wake of the subprime mortgage crisis in the U.S., competition for funding has become fierce in the domestic capital market. In this adverse operating environment, Kookmin Bank has enhanced its treasury function and managed liquidity stably through regular communication with branches and capital requirement forecasting in advance. The Bank continued to develop and sell structured bond products to ensure flexible funding in line with market conditions, while diversifying funding sources and reducing funding costs.

In addition, despite tight global credit following the U.S. subprime debacle and the fall of Lehman Bros., Kookmin Bank succeeded in funding roughly US\$2.2 billion through various financing vehicles including club deals, promissory notes and other instruments with foreign investors. The Bank was the first Korean institution to successfully issue samurai bonds in April 2008, and was also the first domestic commercial bank to issue foreign currency-denominated bonds, reviving a market which had ground to a halt in the aftermath of the subprime mortgage crisis.

#### Integrating Trading Functions & Increasing Derivatives Sales

Although 2008 was a difficult year for trading due to the global financial crisis triggered by such factors as fluctuating oil prices, the collapse of Lehman Bros. and other factors, Kookmin Bank stably managed profit and risk through the integration of trading functions and improvements in portfolio management. In particular, the Bank achieved a twofold increase in profit over 2007 on heavy



trading in the foreign currency market and the launch of new products like "Gold Banking."

In the area of sales, the Derivative Sales Department, working in close cooperation with corporate banking branches throughout the country, conducted active marketing of derivative products, while the "Derivatives Master Course," workshops and lecture tours to corporate banking branches enhanced the competence levels of the Bank's derivatives sales through practical education and training.

By expanding its derivatives sales platform with financial & interest rate risk-hedging products for SME and large corporate customers, Kookmin Bank managed to post a slight increase in sales relative to the previous year, despite deteriorating business conditions due to the global financial crisis.

## 02. Plans for 2009

Further economic contraction is expected in 2009 due to the economic downturn and persistent credit crunch of advanced nations like the U.S, with sharp fluctuations in the stock market, foreign exchange rates and bond markets forecast to continue for a considerable period.

### Stabilizing Funding and Cultivating New Supply Markets

In the treasury sector, Kookmin Bank will utilize its accumulated product development capabilities to diversify its offering of structured bonds, and leverage its reputation as Korea's largest bank to conduct target marketing activities and establish a stable funding structure.

In the foreign currency sector, the Bank will concentrate on securing new liquidity in response to global financial turmoil, and take early steps to strengthen funding by tapping new fund supply sources, such as the non-dollar niche market, samurai shelf program conversion and euro-denominated bonds.



### Diversifying Portfolio Management & Responding to Systemic Change

In the area of trading, Kookmin Bank will take proactive countermeasures against volatile changes in the market environment caused by continuing instability in international financial markets. It will also use its established derivatives operating system to play an active market-maker role in providing liquidity to the domestic market for KRW-denominated derivatives, and extend its risk management and liquidity support to its customers. Furthermore, through credit derivatives and other new products, the Bank will seek to increase the scope and profit level of its derivative operations.

In the area of sales, the Bank will provide its customers with stable service in connection with systematic protection in the area of derivatives sales stipulated under the FSCMA. To establish a sales platform for corporate and individual customers, Kookmin Bank plans to develop and provide derivative-linked structured products tailored to the characteristics of each customer group, and expand sales support through workshops and seminars. In addition, to enhance customer satisfaction and sales capabilities, economic experts within Kookmin Bank will provide information and organize lectures for customers and bank branches.

## Trust / Pension

Pursuing asset management strategies that produce stable returns, Kookmin Bank continues to broaden its range of competitive trust products through

new product development and sales. The Bank is also increasing its trust balance and commissions by enhancing the attractiveness of its products and developing innovative new products, while expanding its market share by strengthening the growth platform for pension-type money trusts.

## 01. 2008 Results

### Increasing Money Trust Balance

Sales of Wealth Care Trusts (WCT) providing total asset management and value-added services, expansion of invested assets and improved product attractiveness in Money Market Trusts (MMT) helped boost the specified money trust balance 25% over 2007 to KRW 5,317.2 billion. Strong sales of exchange-traded funds (ETF) and equity-linked swaps (ELS) contributed to this gain.

Kookmin Bank enhanced the payout ratio of individual pension funds, the core pension-type money trust product, by approximately 0.33%p over 2007, thanks to the effective reinvestment of a portion of the assets. The money trust balance in 2008 posted a solid 15.8% advance to KRW 9,687 billion due to the increase in sales of specified money trust products, while income from trust fees reached a total of KRW 64.2 billion.

### Conducting Strategic Marketing through Market Segmentation

Kookmin Bank augmented its roster of specialists in order to achieve greater service differentiation, improved the attractiveness of its retirement pension time deposits to suit customer needs and market conditions, and added a retirement pension fund to diversify fund management methods.

In addition, the Bank strengthened fund management monitoring by providing customers with regular evaluations of fund products and reports on the status of their individual retirement pension funds via email. Kookmin

Bank also opened an exclusive call center and a dedicated internet website for its retirement pensions (www.kbpension.co.kr), and established an online educational center for pension customers. The "Retirement Pension University" was organized for relevant staff of prospective corporate clients of retirement pensions, successfully attracting most of the companies that attended the event. Adopting a market segmentation approach, Kookmin Bank conducted strategic marketing with branches focusing on small companies and co-marketing by branch & head offices aimed at medium- and large-sized corporations, achieving a balance of KRW 551.1 billion as of the end of 2008, up 132% from 2007.



competitiveness, while maximizing competencies in such areas as calculating retirement benefit obligations in line with International Financial Reporting Standards (IFRS) and personnel/welfare/asset management consulting. At the same time, the Bank will strive to expand its market share through aggressive marketing, and enhance customer convenience through internet banking and call center operations for retirement pension subscribers.

other HNWIs with at least KRW3 billion in financial assets, bringing the Bank's total number of PB centers to 30. As a result, total assets under management (AUM) rose by 12% over 2007 to KRW7.2 trillion.

Although asset management performances were hit hard by the deepening global financial crisis in the latter half of 2008, Kookmin Bank took a variety of special measures to assist its PB customers, including the "Wealth Clinic," an asset diagnostic program conducted by experts from the Bank's head office.

#### Expanding Service Contents

In September 2008, Kookmin Bank launched the "Star AURUM" service, expanding its offering of tailored "lifestyle" services for WIP customers, including health, travel, culture and leisure interests.

The Bank also hosted match-making events, golf tournaments and art tours to enhance PB customer satisfaction.

## 02. Plans for 2009

### Expanding Customer Base to Boost Trust Balance & Profits

In 2009, Kookmin will seek to maintain a stable payout ratio for pension-type unspecified money trust products by diversifying invested assets and effectively reinvesting funds nearing maturity. The Bank will also make every effort to expand its trust balance and trust commission income by improving the attractiveness of its specified money trust products, continue to develop new products and identify new customers for its asset management-type products, trust of security and real estate mortgage trusts.

In the area of specified money trust products, Kookmin Bank plans to increase its balance and trust commission income by strengthening WCT sales through enhanced asset management capabilities and system upgrades, and by developing products to meet customer needs, including MMT, CP & bond and ELS products.

### Increasing Share of Retirement Pension Market

Kookmin Bank will design retirement pension systems to increase its

## Private Banking

Kookmin Bank provides private banking (PB) service for high net worth individuals with more than KRW 500 million in financial assets through the "GOLD&WISE" brand. The superior asset management capabilities of its private bankers, advanced customer management systems, and differentiated services have helped to position Kookmin Bank as the leading brand in the wealth management sector.

## 01. 2008 Results

### Accelerating Growth and Reinforcing Customer Trust

As in 2007, Kookmin Bank grew its PB customer base in 2008, attracting 2,400 new customers by integrating high net worth individuals (HNWIs) from individual branches into the PB Center. Furthermore, three additional PB centers were established during the year, including the Gangnam Finance PB Center exclusively for corporate CEOs and

## 02. Plans for 2009

### Growing Customer Base in Response to FSCMA

In preparation for intensified competition in the asset management industry due to the implementation of the FSCMA in 2009, Kookmin Bank will reinforce existing PB customer management, while seeking new customer creation by promoting cooperation among retail and corporate banking branches, and via cross-selling efforts with KB Investment & Securities.

Along with the above measures, the Bank will improve its relevant PB operation processes in line with strengthened investor protection regulations, upgrade investor strategy and research functions, and provide more extensive investment information to customers to build trust and achieve shared growth.

# KB Investment & Securities

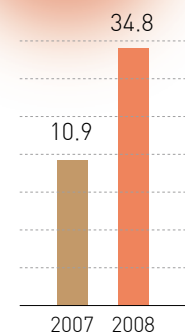
The newly established KB Investment & Securities enjoyed industry-leading profitability, ranking No.1 in ROE and sixth in net income in the industry as of September 2008, while maintaining strong competitiveness in corporate finance and institutional sales. Seeking to become the core non-banking subsidiary within KB Financial Group, KB Investment & Securities has entered the retail market and initiated OTC derivative business.



**Joon-Ho Byun**, Head of Small Cap Part / Senior Analyst  
(Research Center, KB Investment & Securities)

Net Income  
(in KRW billion)

+ 219%





**KB Investment & Securities began business in March 2008, changing its corporate name upon establishment after Kookmin Bank's acquisition of the former Hannuri Investment & Securities. Its main businesses are Corporate Finance, IB, Sales & Trading, Retail Sales, Institutional Sales and Research.**

**After becoming a subsidiary of KB Financial Group, the company ranked 1st in ROE and 6th in net income within the industry as of September 2008. This marked an auspicious start toward its long-term target becoming one of the top three comprehensive financial investment companies in Korea by 2013.**

## 01. 2008 Results

The global financial crisis sparked by the U.S. subprime mortgage debacle led to a slump in domestic and overseas stock markets in 2008, weakened bond market supply & demand and increased exchange rate volatility, culminating in worsening profitability and growth for the securities industry.

In the brokerage market, institutionalization of equity ownership was a prominent trend, while discount brokers achieved progress centering on the on-line trading medium. With the FSCMA taking effect from February 2009, competition within finance industry looks set to intensify.

### **Strengthening Corporate Finance & Institutional Sales**

In 2008, KB Investment & Securities turning in stellar performances in its

main businesses of institutional sales and corporate finance in terms of growth and profitability, strengthening its position within the market.

Institutional sales recorded increases in both operating income and net income of more than 50% compared to the previous year, while operating income and net income in corporate finance rose by 121% and 200%, respectively. KB Investment & Securities ranked 2nd in Korean Won-denominated bonds and 5th in foreign currency-denominated bonds at year-end 2008 in Bloomberg investment banking league tables. By bolstering its presence in corporate finance during the year, KB Investment & Securities boosted the weighting of IB in its revenue structure to a degree matched by few other domestic securities companies.

### **Evolving into a Comprehensive Securities Company**

KB Investment & Securities is preparing the foundation to become the primary non-banking subsidiary of KB Financial Group by maintaining its existing competitiveness and diversifying into new businesses, including the retail market and OTC derivatives trading.

In 2008, the company established the Retail Sales Center and recruited experts in preparation of the launch of retail operations from early 2009. It will initiate brokerage, fund sales, asset management product development & sales via the "KB plusstar" home trading system (HTS). Furthermore, KB Investment & Securities will build a competitive foundation for its retail business with synergies generated through KB Financial Group's extensive financial network.

In preparation for the launch of its OTC derivatives business, the company is building risk management and OTC product management systems, and will initiate OTC operations in earnest from late 2009 after obtaining the relevant license.

## 02. Plans for 2009

KB Investment & Securities' goal for 2009 is to expand its platform for solid growth by strengthening marketing positioning in core business areas. It will establish core non-banking business lines within KB Financial Group and build a solid basis from which to grow into a comprehensive financial investment company.

Accordingly, strategic tasks will be to strengthen the company's market position in core businesses, activate newly launched businesses, build a platform for maximizing group synergies, and develop advanced capabilities and systems.

First, to strengthen its market position in existing core business lines, KB Investment & Securities will consolidate its dominance in corporate finance, increase its share of the institutional sales market, and reinforce research operations.

Second, it will activate new businesses by successfully entering the retail market, realizing high-value added IB sales, and rapidly solidifying its market position. It will also concentrate on Sales & Trading and commence its OTC derivatives business.

Third, the company will create a basis for maximizing group synergies. It will actively pursue opportunities for cross-selling and joint sales, devise financial hybrid products & integrated sales channel, support group-wide customer information-sharing and CRM activities.

Fourth, it will develop advanced capabilities and systems. The company will implement risk management and internal compliance controls, develop IT systems to create new business models, and secure expert manpower and HR management systems.

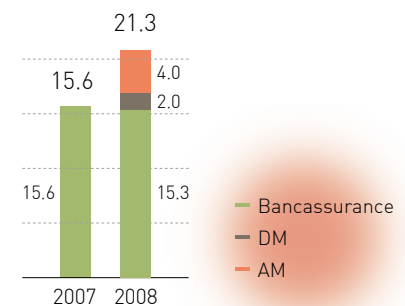
# KB Life Insurance

KB Life Insurance enjoys a stable revenue base thanks to our diversified sales channels, including nationwide agency marketing (AM), and direct marketing (DM) channels through telemarketing. It plans to launch a Total Consultant by Tele-skill (TC) channel combining a TM channel with a face-to-face channel, which will serve as the key outbound face-to-face channel of KB Financial Group.



**Kyung-Won Kim**, Head of Team  
(Separate Account Management Team, KB Life Insurance)

**Total CMIP\***  
(in KRW billion)



\* Converted Monthly Initial Premium





Established with equity participation by Kookmin Bank and ING Group, KB Life Insurance has developed manpower and infrastructure resources based on Kookmin Bank's vast nationwide branch network and ING Group's advanced insurance & financial techniques.

## 01. 2008 Results

In 2008, lower stock prices drove sales of variable life insurance—the industry's core product—considerably lower, while surging corporate bond rates and increasing preference for stable, high-yield financial products led to a shift away from investment-type products to protection-type products. Insurance companies also reinforced internal risk management by strengthening capital structure to improve deteriorated solvency margin ratios and enhance stability.

### Maintaining Bancassurance Leadership & Diversifying Sales Channels

KB Life Insurance was the top seller of bancassurance products through Kookmin Bank in both 2007 and 2008, and steadily increased its market position to 6th among Korea's 22 life insurance companies.

It also inaugurated agency marketing (AM) and direct market (DM) channels in January 2008 to diversify sales channels and secure a stable revenue base. The AM Channel is an insurance sales department operated via the General Agency, a corporate representative office, and comprised 31 agencies and 280 employees nationwide as of the end of 2008.

KB Life Insurance's DM Channel consisted of two TM agencies and 158 telemarketers at year-end 2008, and will become the primary channel for generating group synergies. Database sharing with KB Card boosted DM Channel CMIP over KRW2.0 billion in 2008, 7th highest among domestic life insurers.

### Launching New Channel Products & Hybrid Products

Bancassurance sales grew apace in 2008, while KB Life Insurance built a foundation for business diversification by developing new products for AM/DM Channels and hybrid financial products. Its top-selling bancassurance product, "Champion Variable Pension Insurance," accounted for 35.6% of all variable insurance sales by Kookmin Bank in 2008. "KB Equity Index Linked Savings Insurance" launched in tandem with the new DM Channel took up 98% of total DM sales, becoming the leading telemarketing product. "KB Star Variable Universal Insurance" and "KB Star Dream Tree Variable Universal Insurance" were also launched with the opening of the AM Channel, with both showing solid sales growth to become leading AM products. Furthermore, the company's insurance service integrated with Kookmin Bank's "Hub Time Deposit" achieved monthly sales of KRW100 million in three months since its debut.

### Strengthening Internal Support Infrastructure

In 2008, KB Life Insurance strengthened internal infrastructure, implemented a new performance management system, reinforced risk management, improved budget management and training systems, and expanded IT infrastructure.

Introducing a Balanced Score Card (BSC)-based new performance management system, the company uses eight Critical Success Factors (CSFs) and 14 monthly Key Performance Indicators (KPIs) to promote goal-

driven performance. For greater budgetary accuracy and cost reduction, the previous fixed-budget system was replaced with a flexible budget system for monthly-limit management.

Due to efforts to elevate customer service quality through systematic work processes and service education, KB Life Insurance was honored for the second consecutive year for its outstanding call center operations in the Korea Quality Service Index (KSQI) conducted by KMAC.

## 02. Plans for 2009

Although the global financial crisis will continue in 2009, domestic regulatory changes permitting the same company to engage in investment advisory and investment trust businesses, expansion of investment instruments for asset management firms, and allowance of insurance holding companies bode well for continued financial conglomeration and growth in size.

### Sales Channel Expansion for 2nd Takeoff

KB Life Insurance has set "Expanding Sales Channels for a 2nd Takeoff" as its management goal for 2009. The company will launch a Total Consultant by Tele-Skill (TC) channel that combines TM and face-to-face channels and serves as the only outbound face-to-face channel within KB Financial Group, while pursuing growth in bancassurance, AM and DM. It will also seek group synergies through cross-selling of products with other subsidiaries, attract insurance settlement accounts, develop hybrid financial products, and market group insurance.

In the coming year, KB Life Insurance will deploy IT systems for the adoption of IFRS, improve work processes, and upgrade staff training and personnel systems.

# KB Asset Management

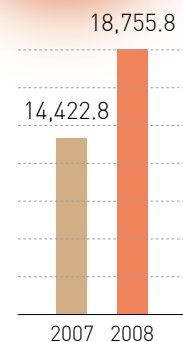
Optimizing risk and return with a professional spirit and world-class management processes, KB Asset Management aims to be the growth engine of KB Financial Group's non-banking businesses, generating group synergies and elevating risk management capabilities.



**Charae Cho**, Team Head  
(Marketing Division, KB Asset Management)

Assets Under Management  
(AUM)  
(in KRW billion)

+ 30%





Ranked fourth among Korea's comprehensive asset management firms, KB Asset Management leads the industry in high growth and sophistication, boasting the most diversified and well-balanced portfolio including equities, bonds, index funds, derivative funds, overseas, real estate funds and special asset funds. It also offers a variety of overseas investment products through close cooperation with global asset management companies.

KB Asset Management is the first choice for a long and growing list of pension funds, insurance companies and other domestic and overseas institutional investors who prefer a long-term investment approach with competitive risk-adjusted returns and conservative management.

## 01. 2008 Results

### Raising Market Profile by Increasing Equity Funds

Owing to its focus on equity funds, which were the prime driver of growth in the asset management business in 2008, KB Asset Management achieved a 76% rise in domestic equity fund AUM, more than double the industry average rate of increase. Of this gain, sales of the "KB New KwangKaeTo Equity Fund" contributed KRW600 billion to AUM. The perfect flexible defense in times of extreme market volatility, this fund charges investors no early-redemption fees. Additionally, our newly introduced "KB Korea Elite 20 Equity Fund" consisting 20 blue-chip companies added another KRW167 billion to AUM. The result of these strong sales

performances was to boost KB Asset Management's market share from 4.8% in 2007 to 5.2% in 2008.

### Maintaining High Domestic Equity Fund Returns

KB Asset Management improved its ranking in domestic equity fund returns from the top 25th percentile in 2007 to the top 16th percentile in 2008. This achievement was the result of its teamwork-based management process, whereby KB Asset Management constructs model portfolios through the interaction of portfolio managers and sector managers, while adhering to its investment philosophy grounded in rigorous risk management.

### Diversifying Product Lineup

KB Asset Management launched various new products in 2008 in response to shifting customer needs and changing market conditions. The company's newly developed "KB Korea Elite 20 Equity Fund," which focuses on core blue-chip stocks to attract long-term investment, has become one of Kookmin Bank's top installment-savings funds. Moreover, "KStar 5-Group Stock ETF," its first exchange-traded fund (ETF), was launched in October. Through active trading and an increase in fund size, this move represented KB Asset Management's successful debut in the ETF market.

Other funds created during the year by KB Asset Management in alliance with its overseas partners include the KB MENA (Middle East & North Africa) Fund, the Emerging Asia Fund, and the Emerging Market Bond Fund, as well as the Shipping Investment Fund, the Korea Paper Investment Fund, and a bond fund with a repo facility for institutional investors.

### Expanding 3rd Sales Channel

KB Asset Management made significant progress in lessening our dependence on group subsidiary Kookmin Bank and raising its profile as a total asset management company by developing

customized and differentiated products to match sellers' characteristics, and by adding 10 new retail channels including Hana Bank, Korea Exchange Bank, SC First Bank and Korea Investment & Securities.

## 02. Plans for 2009

Financial markets are expected to be plagued by difficulties throughout the year ahead owing to adverse effects of the U.S. subprime mortgage debacle, stagnation in developed countries, declining Chinese market growth, and mounting signs of economic crisis in Eastern Europe. In addition, investors are likely to prefer safer assets due to the sharp downturn in fund returns, disputes and legal actions between sellers and customers, and a poor performance by real estate funds. Meanwhile, the Financial Investment Services and Capital Markets Act (FSCMA) will create new opportunities in financial markets and lead to intensified competition among market participants.

### Timely Product Launch & Risk Management/Work Process Systems

In 2009, KB Asset Management will focus on maximizing its brand recognition and generating group synergies by increasing its sales portion within KB Financial Group. Moreover, market-leading new fund products such as an NPL Fund, Multi-Asset Fund, Green Growth Fund and New ETF will be launched in a timely manner, and a diverse product lineup will be developed. At the same time, KB Asset Management will increase training for fund marketers and diversify sales channels including an online platform.

In order to strengthen the management system, KB Asset Management will upgrade stock trading systems, acquire Global Investment Performance Standards (GIPS) certification, and introduce International Financial Report Standards (IFRS).

# KB Real Estate Trust

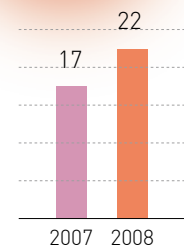
Creating new business models including global property management and real estate investment trusts, KB Real Estate Trust is competitively positioned to respond to recent changes in the financial environment, including the FSCMA, and offers customers exceptionally differentiated real estate management services with an emphasis on strong risk management, investor protection and management efficiency.



**Ha-Ra Ko**, Senior Clerk  
(Finance Dept., KB Real Estate Trust)

Assets Under Management  
(in KRW trillion)

+ 29%







**KB Real Estate Trust efficiently manages customers' real estate on consignment and returns to customers the revenues generated therefrom. Major products include real estate trusts, mortgage trusts, agency support, REITs and AMC, with new products synthesizing real estate and finance currently under development.**

## 01. 2008 Results

Following a prolonged slump in real estate since 2007 and the U.S. subprime mortgage crisis, the domestic real estate market fell into recession in 2008 amid frozen capital markets. Consequently, competition for orders has become increasingly fierce as new real estate trust companies and securities firms strive to gain a foothold in the industry, while the volume of new property development decreases.

### Developing New Business Models

In 2008, KB Real Estate Trust expanded the scope of our state-owned real estate trust operations by providing consulting services on development projects for 19 properties owned by the National Supply Administration, and signed a real estate development MOU with the Jungnang District Office in Seoul. Additionally, real estate development MOUs were concluded with Dongguk University, Daegu MBC and others as the company sought development projects with foundations possessing large-scale idle land.

To bolster its competitiveness in conjunction with the enforcement of the Financial Services and Capital Markets

Act, KB Real Estate Trust promoted SOC projects initiated by financial investors, such as the Byeollae District, Namyangju City Project Financing Vehicle (PFV) in which 17 institutions including Kookmin Bank jointly invested.

### Overseas Expansion and REITs Business

KB Real Estate Trust develops innovative new real estate trust products by monitoring and analyzing regulations in advanced economies, such as the U.S. and Japan. In November 2008, it won a project management (PM) order for the development of Khansvill in Ulan Bator, Mongolia, creating new opportunities to diversify its revenue sources.

### Expanding Trust Client Base & Strengthening VIP Relationships

KB Real Estate Trust carried out a variety of marketing activities to strengthen our network of contracting, construction, and financial institutions, and hosted golf events in the first and second half of the year. Moreover, it provided real estate development seminars for over 1,000 Buddhist monks who hold a sizable amount of land, and created a new high-return business model based on a contract signed with Yangpyeong County on real estate development. The company has held explanatory sessions for Kookmin Bank branch managers nationwide to enhance the general understanding of real estate trust products among KB Financial Group subsidiaries.

### Improved Management Efficiency and Stronger Risk Management

KB Real Estate Trust has revised various operational guidelines, including implementation of a process innovation suggestion system to improve management efficiency, and rationalization of order procedures to increase real estate management trust order-taking results. In addition, it established an in-house "Real Estate University" and conducted employee education in related areas by inviting outside professionals.

## 02. Plans for 2009

Despite recent relaxation of real estate regulations, large-scale national land development and capital injection, it expects the current recession in the real estate trust market to continue into 2009, due to increasing unsold properties and restructuring of construction companies. In addition, sales competition among real estate industry players is likely to intensify, primarily due to the emergence of new real estate trust companies and enforcement of the FSCMA, which permits securities firms and insurance firms to compete in this industry.

### Strengthening Marketing & Management Efficiency

KB Real Estate Trust will reinvigorate marketing efforts by realigning organizational and human resources and reinforcing R&D capabilities, while expanding its market share by strengthening "emotional" marketing targeting potential clients. In addition, it will stake out an early market lead in the national and public real estate trust market by leveraging the reputation of KB Financial Group in its marketing activities aimed at national & local governments and public institutions.

It will diversify its business range with the introduction of CR-REITs for properties under corporate restructuring, and identify high value-added revenue sources by cultivating top professionals in PI, PM, AM, real estate brokerage and consulting, among other areas. Furthermore, it will lay the foundations for long-term stable revenue generation with the addition of new business areas, including domestic real estate management services for clients residing overseas. The company will also will also develop low-risk, high-return products utilizing properties transacted in public auctions.

# KB Investment

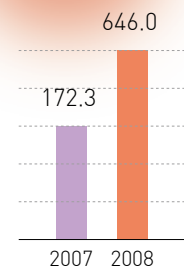
KB Investment will enhance profitability by identifying promising companies in new growth areas, such as clean energy including solar & wind power and secondary-cell batteries, and focusing PEF investments on to-be-privatized public companies, companies undergoing corporate restructuring, and foreign investment opportunities.



**Yoon-Ah Son**, Assistant Manager  
(Private Placement Division, KB Investment)

Assets Under Management  
(AUM)  
(in KRW billion)

+ 274%





KB Investment assists small and medium-sized enterprises in financial and business decision-making through each stage of a company's growth, from establishment to listing on the Kosdaq. Harnessing internal KB Financial Group synergies to become Korea's No.1 and one of Asia's top venture capital firms by 2013, KB Investment overcame market difficulties in 2008 to maintain profitable business through efficient risk management and a proactive investment approach toward new growth sectors and the PEF market. Accordingly, KB Investment received 'A' ratings in a management survey conducted by the Small and Medium Business Administration for all categories including management status, manpower, transparency & risk management, partnership formation & business results, compliance, and others.

## 01. 2008 Results

Due to deterioration in the business environment caused by the global economic crisis, the number of new companies listing on the Kosdaq decreased 60% in 2008 compared with the previous year, while the index itself fell by 53%. Overall returns on investment in the venture capital industry were down in 2008, as illustrated by the number of Kosdaq-listed firms whose stock prices dipped to levels below their public offering prices. In particular, investment returns of venture firms producing components for mobile phones and LCD displays have been hit especially hard as those two industries reach maturity and enter



a phase of intense price competition.

### Focusing on New Growth Opportunities

As rising oil prices continue to spark growing interest in new & renewable energy sources, companies engaged in the clean technology sector including solar energy, wind power and secondary-cell batteries represented 78.5% of all firms in KB Investment's portfolio in 2008, accounting for approximately 81% of its total venture investments.

### Income Diversification via Entry into PEF

Entering the private equity fund (PEF) industry in 2008, KB Investment was the first in the venture investment industry to reach over KRW500 billion in assets under management (AUM), with this figure rising to KRW630 by the end of last year. In line with this increase in AUM, it created a division to assume full responsibility for marketing activities for investors, and reinforced its manpower in this area. These steps have significantly raised KB Investment's ability to transact and arrange timely investment capital from institutional investors such as pension funds, which are major PE investors. They have also broadened its scope of business from venture-based to full-fledged private equity investing in listed companies and medium-sized companies.

Moreover, as a means of increasing the geographic diversification of its investment portfolio, KB Investment has expanded into overseas markets including the U.S., the UK, Vietnam and others, and widened its scope of services with the addition of a management consulting line.

## 02. Plans for 2009

Due to the financial crisis, it expects global economic growth to stall in 2009 and a recovery of the stock index to be delayed. Consequently, large conglomerates may scale back new facilities investment, causing profitability to deteriorate for many small and medium-sized businesses. On the other hand, it will seek increasing opportunities to make low-cost investments in promising companies possessing a technological edge for strong growth once markets revive.

### Strengthening New-Growth Industry/ PEF Investment & Risk Management

While the Venture Investment Division seeks to identify leading companies in new growth areas, the PEF Investment Division will solidify the company's revenue base through focused investments in public companies set for privatization, companies undergoing corporate restructuring, and overseas investment opportunities. In addition, it will effectively manage the risks as it expands investment assets, and ensure that investments are retrievable on a regular basis. Additionally, it will expand management consulting and M&A advisory services to firms in which it invests.

Through aggressive investments coupled with a solid risk management platform built upon a foundation of group-wide synergy creation, KB Investment will pursue continuous growth.

# KB Futures

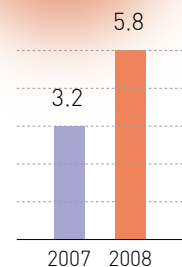
KB Futures seeks to become the top player among all Korean derivatives brokerage firms in the next five years. Its strategy includes securing a balanced profit structure in domestic & overseas brokerage and proprietary trading, and proactively adapt to market changes and stiffer competition following enforcement of the Financial Investment and Capital Markets Act.



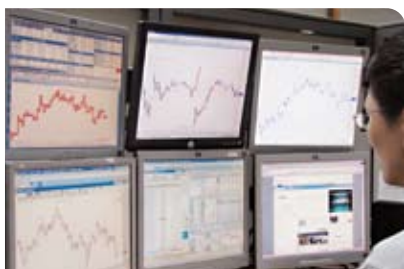
**Bo-Ram Lee**  
(Sales & Trading Department 2, KB Futures)

Net Income  
(in KRW billion)

+ 80%







As a brokerage firm specializing in derivatives, KB Futures is engaged in domestic futures/options and overseas futures brokerage, proprietary trading, collection and dissemination of domestic and overseas futures market information, investment advisory, and education & training. KB Futures is striving to become the leader in the domestic futures industry, armed with experienced industry professionals, superior IT infrastructure, insightful research, stable product trading, and an advanced risk management. These are further strengthened by the combination of a strong financial structure and sophisticated management knowhow.

## 01. 2008 Results

As a result of the global financial crisis, interest rates and exchange rates have become extremely volatile and the aggregate value of futures/options trading activities increased substantially in 2008. Taking full advantage of this market opportunity, KB Futures achieved a healthy 80% growth in net income mainly from the gains on brokerage and proprietary trading. The company also strengthened risk management functions and investor protection, completed system implementation, and received relevant authorizations in preparation for the FSCMA.

### Reinvigorating Overseas Sales and Expanding Capacity

KB Futures runs overseas futures operations 24 hours a day with a team of professionals possessing exceptional foreign language skills, and has upgraded its overseas offline system to enhance

client support capacity. It commenced brokering services for KOSPI 200 Futures & Options on behalf of foreign institutional investors, resulting in a large gain in transaction value. It also began construction of an overseas Home Trading System (HTS) and an FX margin trading system to strengthen overseas retail sales, and made preparations for potential cooperation with overseas futures brokerages as a Futures Commission Merchant (FCM).

### Strengthening Domestic Sales Operations

The company pursued a targeted marketing approach focusing sales efforts on foreign financial institutions and aggressively sought to acquire new clients to strengthen its sales base. In addition, it augmented its professional manpower and strengthened its research division, and also reinforced internal & external education to enhance HR capabilities and improve sales competitiveness.

### Innovating Management & Administrative Systems

The creation of two new divisions, the Administrative Division and the Sales Division, has enhanced efficiency, while improvements in general employee training systems have been made, and new staff requirements for professional certificates and appointments have been established.

### Strengthening Risk Management

In 2008, the net capital ratio and asset-to-liability ratio exceeded the regulatory adequacy levels by an ample margin. Furthermore, in preparation for the enactment of the FSCMA, KB Futures has designated a Compliance Officer to map out early improvements in the existing risk management structure, and built Control Self-Assessment (CSA) and Internal Control over Financial Reporting (ICFR) systems.

## 02. Plans for 2009

With the implementation of the FSCMA

in February 2009, securities companies are now able to establish a presence in the derivative products market, which is expected to intensify competition in the industry. In addition, deregulation and broad reclassification of financial products will promote the development of various new types of derivative products and overseas futures trading in many areas, including an expansion in FX margin trading.

KB Futures has declared 2009 as the year for "Securing growth momentum" in order to identify strategic opportunities from the rapidly changing market environment. In terms of revenue size, it plans to emerge as one of the leading players in the industry.

### Increasing Overseas Competence

KB Futures will strengthen its retail sales force with the completion of the overseas HTS, cultivate and expand additional trading business areas and foreign investor trading in the overseas sectors, and concentrate on growing and promoting FX margin trading.

### Materializing Group Synergies

The company seeks to maximize synergies including increasing sales capabilities through information sharing with other KB Financial Group subsidiaries, while internalizing derivatives brokerage demand. It will also establish a division to identify and manage group synergies, and enhance HR capacity through employee training and staff sharing & pooling.

### Improving Customer Service

KB Futures will build a robust IT system by synthesizing the entire group's IT assets, provide quality research materials by promoting cooperation on research among other KB Financial Group subsidiaries, strengthen risk management systems, and strive to better protect investors. Additionally, it will foster a corporate culture that prioritizes clients' interests by consistently improving existing rules and procedures.

# KB Credit Information

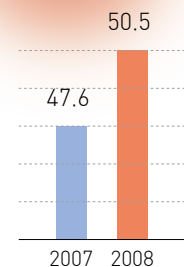
As one of Korea's top-tier credit information companies in terms of asset size and operating revenue, KB Credit Information will continue to upgrade work processes scientifically and systematically, and improve productivity by strengthening debt collection services.



**Sun-Tae Kim**, Assistant Manager  
(Business Promotion Division 1, KB Credit Information)

Total Assets  
(in KRW billion)

+ 6.1%





Specializing in the management of unpaid receivables for the subsidiaries of KB Financial Group, KB Credit Information maintained its leading position among domestic debt collection companies in terms of asset scale, profitability and services in 2008. This success was due to its ability to provide top-quality service based on high-caliber expertise in debt collection and lease investigation, nationwide branch network, and advanced debt management systems, as well as its commitment to improve the asset quality and minimize the reputational risk of creditors.

### 01. 2008 Results

The year 2008 was a difficult one for the credit information industry owing to the ongoing decline in unpaid debt, eroding repayment ability amid domestic and international economic stagnation, creation of the KAMCO-run credit recovery fund, and tightening of debt collection-related regulations. Despite this challenging environment, KB Credit Information produced positive results through business activation efforts to increase collection performance, slim down its network and workforce, and diversify its business lines.

#### Improving Debt-Collection Efficiency

KB Credit Information implemented a series of measures to increase collections, including reinforced special-collection activities and branch rewards & incentives. The company also strengthened special debt management to uncover recoverable accounts, conducted centralized management for



debts on which the statute of limitations was expected to expire, and intensified corporate debt management. It also improved debt collection efficiencies by revising its commission system for collectors and credit evaluation methods. As a result of these efforts, KB Credit Information's performance for the year outpaced other credit information companies, and ranked in the top level among comparables of Kookmin Bank.

#### Taking Preemptive Steps against Weakening Business Environment

KB Credit Information carried out a wide-ranging overhaul of operations in June 2008 in preparation for a weakening business environment. Seven departments at the head office were realigned into six departments, while the branch network was reduced from 34 offices to 18 in consideration of collection efficiency and profitability per branch. Along with these moves, workforce reductions produced KRW1.3 billion in annual cost savings as the company converted to a more efficient organizational structure. It also took aggressive steps to counteract the economic downturn, including a company-wide frugality campaign in April 2008, additional restructuring in October, the return of over 10% of executive pay, an employee wage freeze, a hiring freeze, and suppression of all non-essential budgetary outlays.

#### Expanding Non-Group Collections

KB Credit Information devised a three-year plan to expand non-group collections and implemented the first stage by augmenting its organization and personnel, upgrading ratings for integrated performance evaluations, increasing commissions, implementing

a special reinforcement movement and conducting PR activities. Through these efforts, non-group collections rose by 96.6% to KRW534.7 billion.

#### Establishing Long-term Vision & Strategy

To evaluate management, secure new growth engines, and establish a long-term vision and strategy, KB Credit Information collaborated with an outside professional agency from October 2008 to provide management consulting and gathered employees' opinions. The company will strive to ensure that all employees share its new management vision and have established detailed action plans to execute its core strategic tasks.

### 02. Plans for 2009

In 2009, KB Credit Information expects the financial crisis will lead to corporate downsizing, higher unemployment, and increases in small & medium-sized enterprise bankruptcy and household credit default rates. Thus, although KB Credit Information foresees volume growth in unpaid debt collection, business conditions could worsen if debtors' repayment ability deteriorates. Meanwhile, credit information companies may achieve business diversification by obtaining permission to engage in civil debt collection and regulatory relaxation in the area of business convergence.

KB Credit Information will seek to reduce expenses through branch and personnel realignment, and enhance productivity by improving work processes including debt & debtor propensity analysis systems. Furthermore, the company will work to expand group collections and also create branches and recruit personnel specialized in non-group debt, thereby strengthening operations toward non-bank financial intermediaries, the Korea Asset Management Corporation (KAMCO), and guarantee agencies.

# KB Data Systems

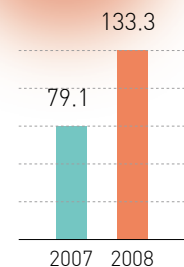
KB Data Systems plays the role of IT hub for KB Financial Group, pursuing its corporate vision to be Korea's representative financial system integration (SI) company and lead the development of domestic financial IT, while actively expanding its scope of operations through successful execution of non-group and overseas projects.



Keum-Ju Shin, Employee  
(Core-Banking Business Dept. 1, KB Data Systems)

Operating Revenue  
(in KRW billion)

+ 69%







Established in 1991 as a specialized financial SI company, KB Data Systems serves as the IT hub for KB Financial Group. The company builds many large-scale systems for group subsidiaries, including the next-generation banking system for Kookmin Bank, the nation's largest bank, the retail sales system for KB Investment & Securities, and other IT systems for KB Futures and KB Investment. In addition to various non-group projects, KB Data Systems is also expanding its presence overseas through projects in Kazakhstan, Cambodia and other countries where Kookmin Bank has opened branches.

## 01. 2008 Results

Despite the global financial crisis and economic stagnation of 2008, Korea's IT service market posted stable growth stoked by rising demand for solutions relating next-generation banking systems, International Financial Reporting Standards (IFRS), Anti-Money Laundering (AML) controls and effectuation of Korea's Financial Services & Capital Markets Act (FSCMA). Amid this favorable market environment, the KB Data Systems recorded its highest operating revenue and net income figures to date in 2008. This strong performance was the result of a steady orders relating to Kookmin Bank's large-scale next-generation banking system, along with active non-group and overseas project operations.

### KB Financial Group's IT Hub

In 2008, KB Data Systems successfully built a next-generation internet banking system and an Integrated Quality Management System (IQMS) for Kookmin

Bank as a part of the bank's next-generation banking system, the largest IT project in the financial industry. The company will further cement its position as KB Financial Group's IT service partner with the development of a next-generation Management Information System (MIS), a Multi-channel Integration System, and a Capital Market Business System (CMBS).

Strengthening its role as the group's IT hub, KB Data Systems also carried out the construction of KB FGI's internet website and personnel & accounting systems, and KB Investment & Securities' retail sales system and call center.

### Innovative Management Improvement Activities

KB Data Systems has realigned its IT development divisions to enhance various support for group subsidiaries, operated self-directed learning and mentoring programs, upgraded its personnel evaluation system to better highlight employee skills, and introduced Knowledge Management (KM) to knowledge-based IT capabilities.

Owing to these efforts, KB Data Systems President & CEO Yun-Keun Jung received the Grand Prize in the IT Services category of the "2008 Value & Vision CEO Awards" sponsored by Hankook Ilbo in recognition of its innovative management performance, its CEO's commitment and leadership for innovation, and its contribution to the development of the IT industry.

### Overseas & Non-group Business

Utilizing financial IT knowhow transferred over the past several years to overseas projects in Indonesia and Japan, KB Data Systems successfully completed a project for the Vietnam Bank for Agriculture and Rural Development in 2008, and is currently executing projects for the Khmer Union Bank in Cambodia and a next-generation overseas business system for Kookmin Bank.

In the non-group business area, KB Data Systems carried out IT projects for public

institutions, such as an AML system for the National Federation of Fisheries Cooperatives and system operation for the Credit Counseling & Recovery Service.

## 02. Plans for 2009

Competition is expected to intensify in the financial IT service market in 2009 amid stagnation in the domestic IT market due to the reduced budgets of financial institutes and the encroachment of large-scale local SI firms into the financial IT market. However, IT demand is forecast to rise as a result of increasing work related to enforcement of the FSCMA, adoption of IFRS, and changes to the Financial Holding Companies Act.

### Major Goals and Plans for 2009

KB Data Systems has outlined a set of tasks to achieve its 2009 management goal of enhancing its role as "IT Designer" to strengthen KB Financial Group's business capabilities. The company will strengthen KB Financial Group's competitiveness by broadening its role as IT partner of KB FGI and all group subsidiaries, completing Kookmin Bank's next-generation project, and expanding IT services to KB FGI and subsidiaries.

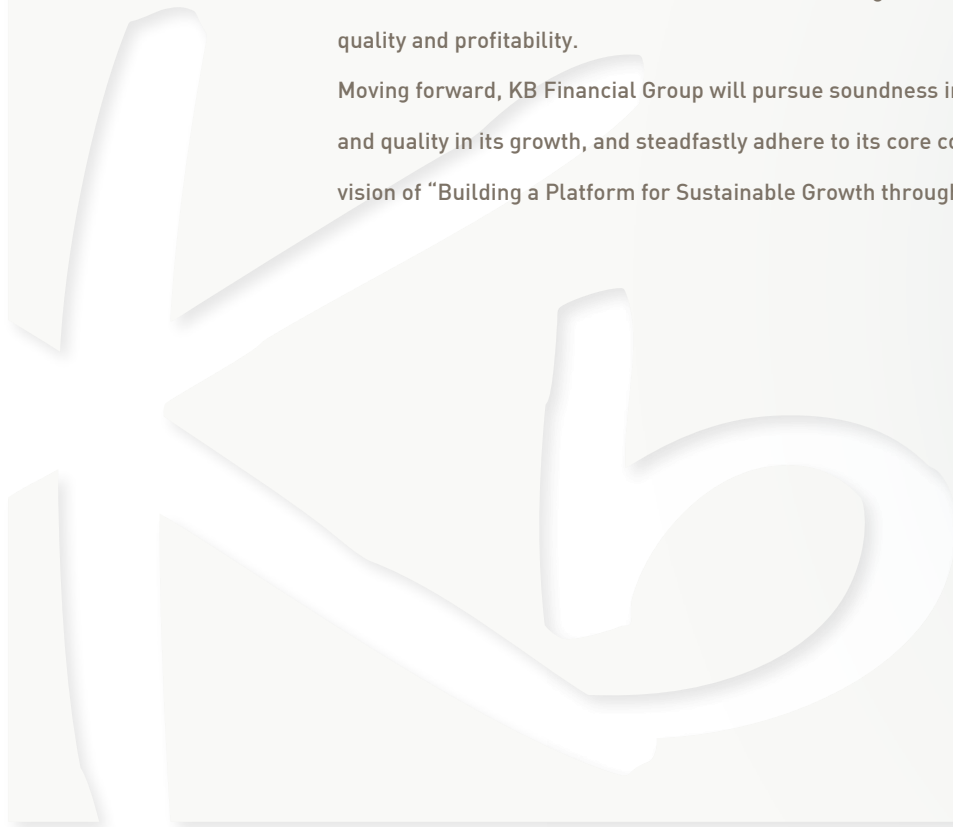
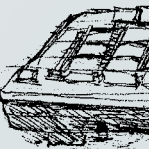
Moreover, the company will develop professional solutions including investor profile classification & consulting systems and customer behavior-based solutions, and expand financial IT solutions development and high value-added businesses by commercializing Kookmin Bank's internet banking IB standard framework. It will also expand non-group business through solutions development and sales, and pursue full-scale overseas operations in step with Kookmin Bank's growing global presence. Lastly, KB Data Systems will capitalize knowledge assets by strengthening the technical competence of its IT services and cultivating area-specific experts, while upgrading knowledge-based management to create IT synergies within KB Financial Group.

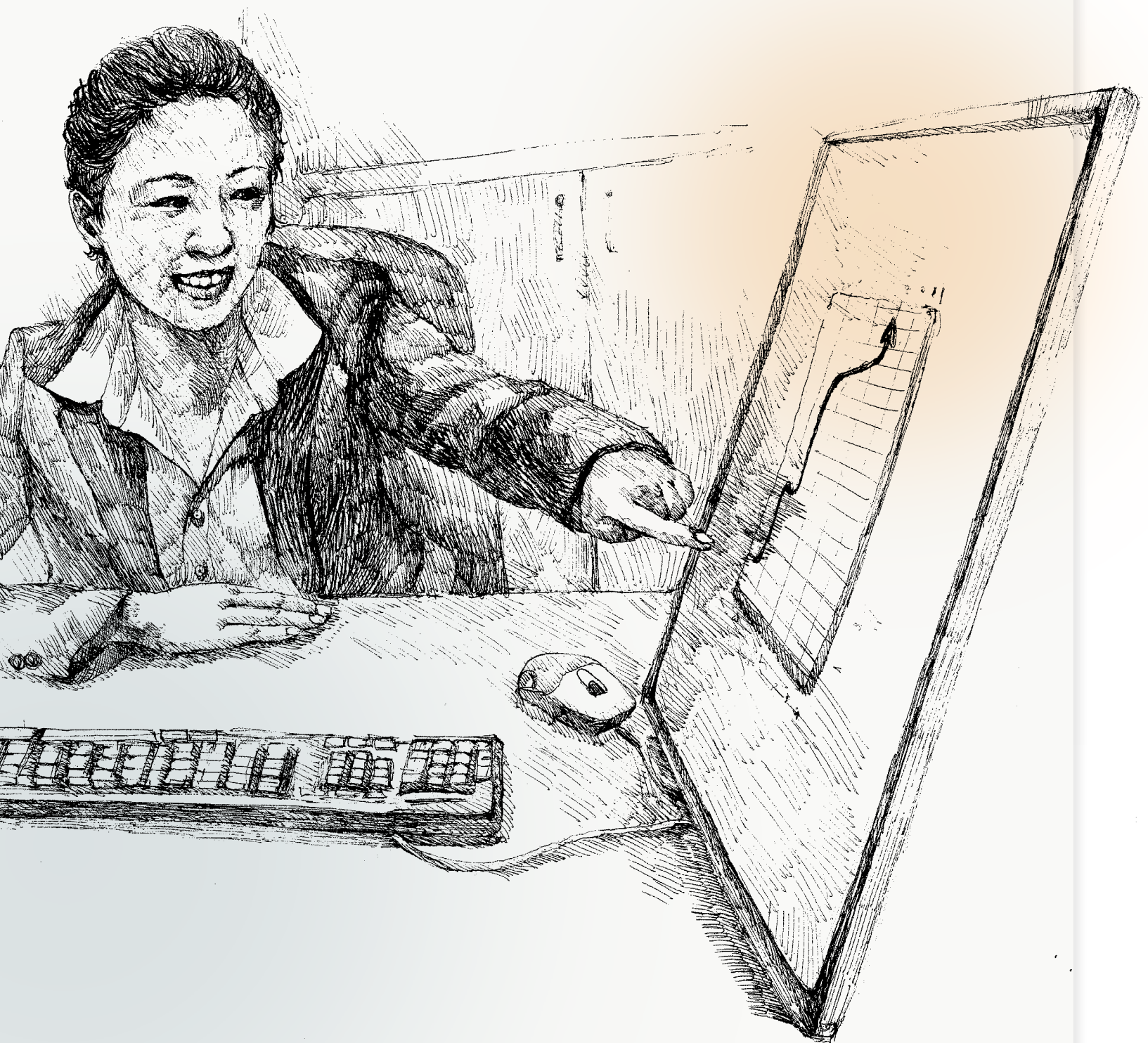
# NEW STAR

## FOR NEW INTRINSIC VALUE

KB Financial Group was successfully established with the support of shareholders and customers, overcoming deteriorating economic conditions on the domestic and global front in 2008 to maintain solid financial results through steady improvements in asset quality and profitability.

Moving forward, KB Financial Group will pursue soundness in its management and quality in its growth, and steadfastly adhere to its core competencies as it pursues the vision of "Building a Platform for Sustainable Growth through Quality Management."





# Management Discussion & Analysis

The year 2008 was a period of diverse challenges and difficulties as no economy was immune from the effects of worldwide recession triggered by the global financial crisis, which in turn was sparked by the U.S. subprime mortgage crisis. The longevity of the current recession is attested to by the many prominent domestic and overseas research institutions that are repeatedly revising their 2009 economic growth forecasts downward. The impact of these global economic trends is readily apparent in the real economy and a variety of events, such as corporate restructuring taking place in the construction and shipbuilding industries. In addition, the Bank of Korea aggressively cut benchmark interest rates throughout the second half of 2008 and into early 2009 in recognition of the effects of the recession on the general state of the domestic economy.

Undeterred by the difficult domestic and overseas economic situation, KB Financial Group Inc. was successfully established with a presence in all three core businesses of the financial industry: banking, securities, and insurance. This would not have been possible without the wholehearted support of shareholders and customers. By leveraging our reputation as a full-fledged financial holding group, we are building on our global network and brand power, and creating synergies among our subsidiaries. In addition, we will continue to execute the group's primary tasks of overcoming the crisis and meeting the challenges occurring in the financial and real economy.

KB Financial Group has achieved a number of notable business results in comparison with 2008. Although the combined net income of the group has decreased by 32.1% recording KRW1, 873.3 billion, this decline was due to the group's decision to implement conservative, preemptive measures in managing its asset quality, including provisioning sufficiently against loan losses. Factoring out this one-time factor, both asset quality and net income results are quite satisfactory, especially considering that interest income has increased by 4.6% despite the rapid decline in market interest rates, illustrating the soundness of the group's profitability.

The group's assets, including Trust & assets under management, totaled KRW320 trillion as of the end of 2008, 20.8% higher than the previous year-end total. Won-denominated loans have increased in the banking business, and in the non-banking business, the successful acquisition of KB Investment & Securities and efforts to strengthen sales capabilities have been the main contributors to this increase. Through successful sales initiatives assets under management recorded KRW51 trillion, a 20.9% increase over the previous year-end result.

As a result of increased total assets and dedicated efforts to improve capital adequacy, Kookmin Bank's BIS capital adequacy ratio and Tier 1 rose to 13.18% and 9.92%, increasing by 0.56%p and 0.18%p, respectively. Such unparalleled capital adequacy is a reflection of the market's continuing confidence in KB Financial Group, and will serve as the foundation of future sales regardless of any economic fluctuation.

Despite the group's preemptive and conservative risk management response in connection with the economic recession and financial crisis, such as increasing allocation of funds to provision against bad debts and closer monitoring of asset quality, both the delinquency and non-performing loan (NPL) ratios posted slight increases due to the economic slowdown. Nevertheless, Kookmin Bank's delinquency ratio rose by 0.06%p from the previous year to 0.65%, which is still a very low level. The NPL ratio achieved a relatively significant increase, up 1.26% from the previous year. But as explained above, this was the result of stricter monitoring standards for asset quality, including the FLC (Forward-Looking Criteria) and corporate restructuring in the construction and shipbuilding sectors.

KB Financial Group will continue to exert every effort to maintain the industry's leading position in terms of asset quality and profitability in the midst of domestic and overseas financial turmoil, thereby meeting the expectations of our shareholders and customers.

# Group Business Results

## Condensed Income Statement - Group

	(KRW in billions)		
	2008	2007	YoY
Interest Income (a)	7,405.8	7,079.6	4.6%
Non-interest income (b)	1,002.5	1,648.6	-39.2%
General and Admin. Expenses (c)	4,021.2	3,805.0	5.7%
<b>Operating Income before provisioning</b>	<b>4,387.1</b>	<b>4,923.2</b>	<b>-10.9%</b>
Provisioning expenses (d)	2,045.0	642.6	218.2%
<b>Operating income (a+b-c-d)</b>	<b>2,342.1</b>	<b>4,280.6</b>	<b>-45.3%</b>
Non-operating income	374.0	264.1	41.6%
Income before taxes	2,716.1	4,544.7	-40.2%
Income tax	842.8	1,782.5	-52.8%
<b>Net income</b>	<b>1,873.3</b>	<b>2,757.3</b>	<b>-32.1%</b>

The group's net income for 2008 was KRW1,873.3 billion, representing a 32.1% decline from the previous year. Despite a 4.6% increase in interest income and a 41.6% surge in non-operating income, the lower net income figure was attributable to the substantial decrease in non-interest income including commission and fees, and to the group's conservative and preemptive measures in provisioning for loan losses. Operating income before provisioning, which excludes the effect of provisioning for loan losses, recorded KRW4,387.1 billion, a 10.9% decrease from the previous year. But excluding the one-time sale of LG Card shares in the previous year, the group pre-provisioning operating income would show a slight improvement from 2007, despite the economic recession and financial crisis.

Despite the effects of the financial crisis and economic recession, the group managed to achieve an increase in account receivables through prudent risk management and active marketing efforts, leading to substantial growth in deposits. As a result of efforts to maintain net interest margins (NIM) at comparable levels with the previous year, interest income reached KRW7,405.8 billion, up 4.6% from 2007. The non-interest income side experienced a decrease in commissions and fees from fund products amid the downturn in the stock market. Factoring in LG Card sales realized in the previous year, non-interest income totaled KRW1,002.5 billion, down 39.2% from 2007.

General and administrative expenses rose 5.7% relative to the previous year, recording KRW4,021.2 billion, due to the expansion of sales networks and other factors. In the future, cost-cutting plans will include such processes as the integration of the group's branch offices. Non-operating income increased by 41.6% relative to the previous term, recording KRW374.0 billion, while taxes dropped by 52.8% to KRW842.8 billion due to lower net income before taxes.



# Management Discussion & Analysis

## Group Income

[KRW in billions]

	KB FGI Standalone	Kookmin* Bank	KB Invest. Securities	KB Asset Mgmt.	KB Real Estate	KB Investment	KB Futures	KB Credit Information	KB Data Systems	Adjustment	KBFG Total
Valuation Gain using the Equity Method	623.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-623.9	0.0
Interest Income (a)	-1.8	7,331.9	44.2	6.0	14.7	1.3	5.0	1.6	1.4	1.5	7,405.8
Non-interest income (b)	-2.3	296.6	74.1	63.8	36.9	6.0	16.2	54.3	29.9	427.0	1,002.5
General and Admin. Expenses (c)	6.7	3,852.1	47.7	30.9	17.3	5.2	12.7	49.9	22.2	-23.5	4,021.2
Operating Income before provisioning	613.1	3,776.4	70.6	38.9	34.3	2.1	8.5	6.0	9.1	-171.9	4,387.1
Provisioning expenses (d)	1.0	1,993.1	22.3	0.0	29.5	0.5	0.0	0.0	-0.2	-1.2	2,045.0
<b>Operating income (a+b-c-d)</b>	<b>612.1</b>	<b>1,783.3</b>	<b>48.3</b>	<b>38.9</b>	<b>4.8</b>	<b>1.6</b>	<b>8.5</b>	<b>6.0</b>	<b>9.3</b>	<b>-170.7</b>	<b>2,342.1</b>
Non-operating income	0.0	345.9	-0.3	-0.3	-1.5	1.3	-0.1	-0.3	-0.6	29.9	374.0
Income before taxes	612.1	2,129.2	48.0	38.6	3.3	2.9	8.4	5.7	8.7	-140.8	2,716.1
Income tax	0.2	643.8	13.9	10.7	2.1	0.0	2.6	1.6	2.4	164.8	842.1
Net Income of Subsidiary**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7
<b>Cosolidated Net income</b>	<b>611.9</b>	<b>1,485.4</b>	<b>34.1</b>	<b>27.9</b>	<b>1.2</b>	<b>2.9</b>	<b>5.8</b>	<b>4.1</b>	<b>6.3</b>	<b>-306.3</b>	<b>1,873.3</b>
Minority Interest Income	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	0.0
<b>Group Income***</b>	<b>611.9</b>	<b>1,488.6</b>	<b>34.1</b>	<b>27.9</b>	<b>1.2</b>	<b>2.9</b>	<b>5.8</b>	<b>4.1</b>	<b>6.3</b>	<b>-309.5</b>	<b>1,873.3</b>

\*Consolidated \*\*Before joining the group \*\*\*Majority Interest Income

As mentioned earlier, the group's net income for year 2008 recorded KRW1,873.3 billion, the majority of which came from the earnings of Kookmin Bank. Kookmin Bank's consolidated net income for 2008 recorded KRW1,485.4 billion, followed by KB Investment Securities and KB Asset Management with net income figures of KRW34.1 billion and KRW27.9 billion, respectively. Results of other subsidiaries include KB Real Estate Trust with KRW1.2 billion, KB Investment with KRW2.9 billion, and KB Futures, KB Credit Information, and KB Data Systems recording KRW5.8 billion, KRW4.1 billion and KRW6.3 billion, respectively. As such, all subsidiaries contribute to the overall net income of the group, with impressive business results.

Taking a closer look at the major subsidiaries excluding Kookmin Bank, KB Investment Securities' corporate sales and corporate finance divisions showed marked improvement over the previous year. Accordingly, its 2008 year-end net income surged over threefold from 2007. KB Asset Management, with its main task of managing customers' trust assets, posted 25.3% higher net income relative to the previous year, reaching KRW27.9 billion. The net income of KB Real Estate Trust declined significantly due to the downturn in the real estate market. KB Investment's net income also contracted sharply amid the economic recession and sluggish stock market. Conversely, KB Futures achieved an 80% increase in net income to KRW5.8 billion, fueled by gains in interest income on customer deposits. KB Data Systems also achieved a 48% increase in net income from the previous year, to KRW6.3 billion, owing to the increase in revenue income from Kookmin Bank's next-generation systems development and service fees.

## Non-Interest Income - Group

	(KRW in billions)		
	2008	2007	YoY
<b>Trust income</b>	<b>144.6</b>	<b>137.5</b>	<b>5.2%</b>
<b>Fee income</b>	<b>811.8</b>	<b>973.8</b>	<b>-16.6%</b>
Credit card income	-209.9	-186.5	n.a.
Commissions received on mgnt. of NHF	85.3	121.7	-29.9%
Guarantee fees	37.1	15.8	134.8%
Other commissions in won	811.6	975.1	-16.8%
Bancassurance	122.3	144.7	-15.5%
ITC products	100.0	108.7	-8.0%
Investment banking	362.8	478.4	-24.2%
Fees on foreign exchange	87.7	47.7	83.9%
<b>Gain on securities</b>	<b>171.0</b>	<b>724.7</b>	<b>-76.4%</b>
<b>Other non-operating income</b>	<b>-124.9</b>	<b>-187.4</b>	<b>n.a.</b>
<b>Net non-interest income</b>	<b>1,002.5</b>	<b>1,648.6</b>	<b>-39.2%</b>

In 2008, non-interested income recorded KRW1,002.5 billion, a 39.2% decrease from the previous year. This result is mainly attributable to the income from fund and bancassurance product-related commissions and fees, the business that has the greatest effect on the group's overall earnings, which fell amid the downturn in the stock markets. Of note, there was a substantial decline in gain on securities, which decreased by KRW553.7 billion from the previous year to KRW171 billion. This contraction is due to the previous year's one-time gain on securities resulting from the sale of Kookmin Bank's shares in LG Card. Excluding the effect of this sale, gain and loss on securities would have been on par with the previous year. Looking at commission and fees by type, guarantee fees and fees on foreign exchange increased by 134.8% and 83.9%, respectively, to KRW37.1 billion and KRW87.7 billion, whereas commission and fees from other areas declined due to the economic recession and downturn in the stock markets. Other non-operating income declined by a noticeably smaller margin than in the previous year.

## General and Administrative Expenses - Group

	(KRW in billions)		
	2008	2007	YoY
Labor cost	1,861.6	1,875.8	-0.8%
Administrative expenses	1,527.9	1,380.6	10.7%
Amortization cost	483.7	425.6	13.7%
Taxes	148.0	123.0	20.3%
<b>General and administrative expenses</b>	<b>4,021.2</b>	<b>3,805.0</b>	<b>5.7%</b>

SG&A expenses increased by 5.7% from the previous year to KRW4,021.2 billion. Labor expenses, which comprise the largest portion of SG&A expenses, decreased by 0.8% from the previous year to KRW1,861.6 billion, the result of the management's efforts to cut costs, Kookmin Bank's labor union and management's agreement to freeze annual salaries, and the reduction of costs from bonuses, retirement grants and stock options. Moreover, administrative expenses increased by 10.7% to KRW1,527.9 billion, while depreciation & amortization expenses and taxes & due increased by 13.7% and 20.3%, respectively, to KRW483.7 billion and KRW148 billion. Future increases in SG&A expenses are expected to be minimal owing to the group's cutting-costs efforts, including improving efficiencies across channels by integrating branch offices.

# Management Discussion & Analysis

## Group Financial Status

### Condensed Balance Sheet - Group

	(KRW in billions)		
	2008	2007	YTD
<b>Total assets</b>	<b>267,548.8</b>	<b>223,044.4</b>	<b>20.0%</b>
Cash and due from banks	8,316.2	6,727.4	23.6%
Securities	38,985.3	34,239.7	13.9%
Loans	198,930.2	171,730.1	15.8%
(Loan loss allowances)	-3,477.4	-2,504.7	38.8%
Tangible assets	3,502.5	2,301.5	52.2%
Other assets	17,814.6	8,045.7	121.4%
<b>Total liabilities</b>	<b>251,486.7</b>	<b>206,937.3</b>	<b>21.5%</b>
Deposits	162,210.3	142,100.5	14.2%
Borrowings	20,389.2	15,276.1	33.5%
Debentures	43,106.3	34,894.7	23.5%
Other liabilities	25,780.9	14,666.0	75.8%
<b>Total shareholders' equity</b>	<b>16,062.1</b>	<b>16,107.1</b>	<b>-0.3%</b>
Paid-in capital	1,781.8	1,681.9	5.9%
Capital surplus	15,473.7	6,274.5	146.6%
Capital adjustment	-3,145.3	0.0	
Accumulated other comprehensive income	1,087.5	331.2	228.4%
Retained earnings	630.9	7,775.3	-91.9%
Minority Interest	233.5	44.2	428.3%
<b>Total liabilities and shareholders' equity</b>	<b>267,548.8</b>	<b>223,044.4</b>	<b>20.0%</b>

The group's aggregate assets as of the end of 2008 stood at KRW267,548.8 billion, a 20.0% increase from the previous year. This result is due to the group's focus on strategies to promote the stable growth of profitable assets and the improvement of asset quality. Loans as of 2008 year-end totaled KRW198,930.2 billion, reflecting a KRW27,200.1 billion increase from the previous year, equivalent to a rise of 15.8%. Cash and due from banks increased from the previous year by 23.6% to KRW8,316.2 billion, while securities increased by 13.9% to KRW39,985.3 billion. Other assets surged by considerable amounts on the back of increased foreign exchange-linked derivative assets.

Total group liabilities as of the end of 2008 stood at KRW251,486.7 billion, up 21.5% increase from the previous year. Deposits, which comprise the largest portion, increased by 14.2% from 2007 to KRW152,210.3 billion due to aggressive efforts to attracting market funds. Borrowings, on the other hand, decreased by 33.5% from the previous term to KRW20,389.2 billion due to intensified competition for deposits and recent trends toward diversification of funding vehicles. With the surge in issuance of subordinated bonds for capital expansion and to secure liquidity, debentures increased by 23.5% from the previous year to KRW43,106.3 billion.

The group's total shareholders' equity was comparable to the previous year at KRW16,621 billion; paid-in capital and capital surplus increased over 2007, whereas capital adjustments and retained earnings decreased.

## Group Assets

(KRW in billions)

	KB FGI	Kookmin*	KB Invest.	KB Asset	KB Real	KB	KB	KB Credit	KB Data		KBFG
	Standalone	Bank	Securities	Mgmt.	Estate	Investment	Futures	Information	Systems	Adjustment	Total
<b>Total assets</b>	<b>16,568.0</b>	<b>266,460.0</b>	<b>2,052.3</b>	<b>126.8</b>	<b>221.4</b>	<b>291.4</b>	<b>150.1</b>	<b>50.6</b>	<b>46.5</b>	<b>-18,418.3</b>	<b>267,548.8</b>
Cash and due from banks	1.8	8,132.2	75.3	106.8	0.4	0.7	119.1	32.0	22.0	-174.1	8,316.2
Securities	16,345.1	38,658.0	1,624.3	3.8	3.7	259.6	25.6	0.0	0.0	-17,934.7	38,985.4
Loans	199.0	198,708.6	237.8	1.7	1.5	22.5	0.0	0.0	0.8	-241.7	198,930.2
Tangible assets	3.2	3,496.7	2.4	0.1	0.4	0.1	0.7	1.0	0.3	-2.5	3,502.5
Other assets	18.9	17,464.5	112.5	14.4	215.4	8.5	4.7	17.6	23.4	-65.3	17,814.6
<b>Total liabilities</b>	<b>739.4</b>	<b>249,039.7</b>	<b>1,730.2</b>	<b>10.3</b>	<b>123.9</b>	<b>11.7</b>	<b>111.9</b>	<b>6.1</b>	<b>20.0</b>	<b>-306.5</b>	<b>251,486.7</b>
Deposits	0.0	162,248.8	30.7	0.0	0.1	0.0	106.8	0.0	0.0	-176.1	162,210.3
Borrowings	730.6	61,306.5	1,566.4	0.0	108.1	10.3	0.0	0.0	0.0	-226.3	63,495.6
Other liabilities	8.8	25,484.4	133.1	10.3	15.7	1.4	5.1	6.1	20.0	95.9	25,780.9
<b>Total shareholders' equity</b>	<b>15,828.6</b>	<b>17,420.3</b>	<b>322.1</b>	<b>116.5</b>	<b>97.5</b>	<b>279.7</b>	<b>38.2</b>	<b>44.5</b>	<b>26.5</b>	<b>-18,111.8</b>	<b>16,062.1</b>
Paid-in capital	1,781.8	2,181.9	78.0	38.3	80.0	221.0	20.0	6.3	8.0	-2,633.4	1,781.8
Capital surplus	15,473.7	6,269.0	111.9	0.0	0.0	18.9	0.0	1.4	0.0	-6,401.2	15,473.7
Capital adjustment	-3,145.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3,145.3
Accumulated other comprehensive income	1,087.5	444.0	32.1	0.1	0.1	-2.6	3.4	0.0	0.0	-477.2	1,087.5
Retained earnings	630.9	8,463.4	100.1	78.1	17.4	42.4	14.8	36.8	18.5	-8,771.5	630.9
Majority Interest	15,828.6	17,358.3	322.1	116.5	97.5	279.7	38.2	44.5	26.5	-18,283.3	15,828.6
Minority Interest	0.0	62.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	171.5	233.5
<b>Total liabilities and shareholders' equity</b>	<b>16,568.0</b>	<b>266,460.0</b>	<b>2,052.3</b>	<b>126.8</b>	<b>221.4</b>	<b>291.4</b>	<b>150.1</b>	<b>50.6</b>	<b>46.5</b>	<b>-18,418.3</b>	<b>267,548.8</b>

\*Consolidated

As of 2008 year-end, the group's total assets amounted to KRW267,548.8 billion, which represents the sum of assets of the holding company and those of the subsidiaries after making adjustments to necessary items. KB FGI held assets of KRW16,568 billion, and Kookmin Bank had total assets of KRW266,460 billion based on the consolidated financial statements. Following Kookmin Bank in asset size is KB Investment & Securities with total assets of KRW2,052.3 billion as of 2008 year-end. Others, including KB Asset Management, KB Real Estate Trust, KB Investment and KB Futures, have total assets ranging from KRW100 billion to KRW300 billion. Total shareholders' equity amounts to KRW16,062.1 billion, and KB FGI's share is KRW15,828.6 billion.

# Management Discussion & Analysis

## Asset Quality - Group

(KRW in billions)

Group Total	2008	2007	YoY
<b>Total outstanding credits</b>	<b>210,022.2</b>	<b>177,758.4</b>	<b>18.2%</b>
Normal	204,040.5	174,799.3	16.7%
Precautionary	3,205.1	1,569.3	104.2%
Substandard	1,695.4	608.8	178.5%
Doubtful	604.0	506.8	19.2%
Estimated Loss	477.2	274.2	74.0%
NPL	2,776.7	1,389.9	99.8%
NPL ratio	1.32%	0.78%	0.54%p
Loan loss allowance	3,618.4	2,575.1	40.5%
NPL Coverage Ratio	130.32%	185.28%	-54.96%p

The scale of KB Financial Group's "Loans for NPL Management" increased by 18.2% relative to the previous year to KRW210,022.2 billion, due to healthy growth in loans. As of 2008 year-end, non-performing loans (NPLs) increased by 99.8% from 2007 to KRW2,776.7 billion. Accordingly, the NPL ratio increased by 0.54%p from the previous year to 1.32%. The large increase in NPLs is mainly due to the group's decision to apply the Forward-Looking Criteria (FLC) and corporate restructuring in 4th quarter 2008. KB's determination to make aggressive provisions to cope with potential future delinquencies is the reason behind this increase.

Provision for loan losses as of 2008 year-end was 40.5% higher than at the previous year-end, totaling KRW3,618.4 billion, due to preemptive measures against potential future losses. The NPL coverage ratio was 54.96%p lower than the previous year-end at 130.32% due to the reclassification of asset quality from the application of FLC, although the coverage ratio is still sufficiently high relative to NPL.



# Operating Results & Financial Status of Subsidiaries

Kookmin Bank

## Operating Results

### Income Statement Summary

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Net interest income	7,230.6	6,961.7	268.9	3.9%
Non-interest income	368.4	1,589.6	(1,221.2)	-76.8%
General & administrative expenses	3,799.6	3,693.3	106.3	2.9%
<b>Operating income before provisioning</b>	<b>3,799.4</b>	<b>4,858.0</b>	<b>(1,058.6)</b>	<b>-21.8%</b>
Provision expenses	1,987.9	624.6	1,363.3	218.3%
(Provision for loan losses)	1,811.3	544.6	1,266.7	232.6%
<b>Operating income</b>	<b>1,811.5</b>	<b>4,233.4</b>	<b>(2,422.0)</b>	<b>-57.2%</b>
Non-operating income	346.8	296.4	50.4	17.0%
Net income before taxes	2,158.3	4,529.8	(2,371.5)	-52.4%
Taxes	647.5	1,756.0	(1,108.5)	-63.1%
<b>Net Income</b>	<b>1,510.8</b>	<b>2,773.8</b>	<b>(1,263.0)</b>	<b>-45.5%</b>

Kookmin Bank's net income in 2008 declined 45.5% from the previous year to KRW1,510.8 billion. This decline was the result of a significant contraction in non-interest income including fee income and a sharp increase in provision expenses compare to the previous year, although net interest income and non-operating income both posted gains over 2007.

While risk associated with loans increased due to the general economic downturn, prudent credit risk management and efforts to expand low-cost deposits led to a 3.9% increase in net interest income over year earlier to KRW7,230.6 billion. However, non-interest income posted a significant decrease over the previous period with the slumping stock market weighing down commission & fee income, and due to the absence of LG Card sales which had buoyed non-interest income in 2007.

General & administrative expenses were held to a nominal increase from 2007 by cost-cutting efforts, but provision for loan losses rose steeply. This sharp increase in loan loss provisions was triggered by an expansion in the scale of provisioning for "normal" rated loans due to an expansion in total over 2007, additional provisions for restructuring in the construction & shipbuilding industries in 4th quarter 2008, and application of Forward Looking Criteria (FLC).

This can be viewed as a means of conservatively measuring and aggressively provisioning for future potential loan losses, and securing capital adequacy. Non-operating income rose by 17.0% from the previous year to KRW346.8 billion, while a decrease in net income before taxes led to a KRW1,108.5 billion reduction in taxes to KRW647.5 billion.

# Management Discussion & Analysis

## Net Interest Income

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Interest income</b>	<b>16,564.0</b>	<b>13,636.6</b>	<b>2,927.4</b>	<b>21.5</b>
Interest on loans	14,785.6	12,146.9	2,638.7	21.7
Interest on securities	1,643.9	1,440.2	203.6	14.1
Interest on due from banks, etc.	134.4	49.5	85.1	171.9
<b>Interest expenses</b>	<b>9,333.4</b>	<b>6,674.9</b>	<b>2,658.5</b>	<b>39.8</b>
Interest on deposits	6,333.9	4,144.1	2,189.8	52.8
Interest on debentures	2,918.5	1,719.4	1,199.1	69.7
Interest on borrowings, etc.	81.0	811.4	(730.4)	(90.0)
<b>Net Interest Income</b>	<b>7,230.6</b>	<b>6,961.7</b>	<b>268.9</b>	<b>3.9</b>

Although the decline in net interest margins persisted amid heightened loan market competition and lower interest rates, an increase in interest-bearing assets focused on high-quality loans led to a 21.5% rise in net interest income over the previous year to KRW16,564.0 billion. Interest on loans comprised the largest portion of total interest income, recording a gain of KRW2,638.7 billion over 2007 to KRW14,785.6 billion.

From a funding perspective, despite improvements in the funding portfolio, consisting mainly of low-cost deposits, and redemption of high-interest term deposits, rising interest rates in the first half of the year stemming from fierce competition for deposits and increasing deposits drove interest expenses up 39.8%, or KRW2,658.5 billion over a year earlier, to KRW9,333.4 billion.

Interest expenses grew at a faster rate than interest income, but in terms of amount, the increase in interest income surpassed the increase in interest expenses, resulting in a 3.9% year-on-year rise in net interest income to KRW7,230.6 billion. In the future, Kookmin Bank expects interest income will steadily rise through continuous improvement of its interest-bearing asset portfolio and efforts to expand low-cost deposits.

## Non-interest income

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Commissions & Fees	844.2	1,071.4	(227.2)	(21.2)
ITC Products	356.5	469.4	(112.9)	(24.1)
Bancassurance	170.2	188.2	(18.0)	(9.6)
NHF Management	85.3	121.7	(36.4)	(29.9)
Trust	84.8	93.4	(8.6)	(9.2)
Other Won Commissions	66.6	155.6	(89.0)	(57.2)
Commissions in F/C	80.8	43.1	37.7	87.5
Gain or Loss on Securities	(371.4)	709.7	(1,081.1)	(152.3)
Others	(104.4)	(191.5)	87.1	(45.5)
<b>Non-interest income</b>	<b>368.4</b>	<b>1,589.6</b>	<b>(1,221.2)</b>	<b>(76.8)</b>

As of the end of 2008, non-interest income recorded a sharp decline from the previous year. Although the economic environment including the sluggish stock market had a limited adverse impact on commission and fee income, a sizable loss on securities—coming after a large gain on securities in 2007—contributed to the steep decline in non-interest income.

Gain on securities recorded KRW709.7 in 2007, but reversed to a red-ink figure of KRW371.4 billion in 2008. This reversal was due to the inclusion in 2008 of gain on sales of LG Card, while the 2008 figure reflected loss on sales of KB FGI stock. Adjusting for this one-time factor, gain on securities would have shown an increase over the previous year.

Commission & fees decreased by 21.2% from the year earlier, down KRW227.2 billion to KRW844.2 billion. Reflecting the lackluster stock market, ITC product commissions drifted 24.1% from a year earlier to record KRW356.5 billion, while bancassurance and trust fees registered relatively moderate declines of 9.6% and 9.2%, respectively. NHF management fees showed a significant contraction of KRW36.4 billion from 2007 to KRW85.3 billion in line with the expiration of the relevant fund management contract. Commissions in foreign currency soared nearly twofold from the previous year to KRW80.8 billion owing to growing exchange rate fluctuations throughout 2008.

Anticipating an end to the current turmoil in capital markets and a return to stability and continued growth, the Bank expects to put the contractions of 2008 behind it and resume steady expansion of non-interest income.

## General & Administrative Expenses

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>General &amp; Administrative Expenses</b>	<b>3,799.6</b>	<b>3,693.3</b>	<b>106.3</b>	<b>2.9</b>
Labor expenses	1,755.7	1,820.7	(65.0)	(3.6)
Administrative expenses	1,443.8	1,332.0	111.8	8.4
Depreciation and amortization expenses	458.1	422.7	35.4	8.4
Taxes and dues	142.0	117.9	24.1	20.4
<b>Cost-income ratio</b>	<b>50.5%</b>	<b>43.0%</b>		<b>7.5%p</b>

General & administrative expenses posted a nominal increase to KRW3,799.6 billion in 2008. Though constituting the largest portion of this total, labor expenses slipped 3.6% from the previous year to KRW1,755.7 billion. This decrease reflects a labor-management wage freeze in consideration of the aggravated financial and economic circumstances, as well as year-on-year declines in bonuses, retirement payments and stock option expenses. Administrative expenses grew by a moderate 8.4% to KRW1,443.8 billion compared to 2007 due to increases in other employee benefits and rent expenses. Depreciation and amortization expenses increased KRW35.4 billion and KRW24.1 billion, respectively, to KRW458.1 billion and KRW142.0 billion. The cost-income ratio grew significantly from 2007 to 50.5% on reduced operating income, with the marginal rise in general & administrative expenses exacerbated by the steep increase in loss on securities and decreases in non-operating income items.

# Management Discussion & Analysis

## Operating Income before Provisioning

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Operating Income before Provisioning</b>	<b>3,799.4</b>	<b>4,858.0</b>	(1,058.6)	(21.8)
Provision expenses	1,987.9	624.6	1,363.3	218.3
Provision for loan losses	1,811.3	544.6	1,266.7	232.6
Household	202.5	83.0	119.5	144.0
Corporate	1,471.4	407.2	1,064.2	261.3
Credit card	137.4	54.4	83.0	152.6
Others	176.6	80.0	96.6	120.8
<b>Operating income</b>	<b>1,811.5</b>	<b>4,233.4</b>	<b>(2,422.0)</b>	<b>(57.2)</b>

The Bank's operating income in 2008 showed a steep decline from the previous year to KRW1,811.5 billion. Despite higher interest income, the aforementioned decrease in non-interest income and the large increase in provision expenses resulted in this contraction in operating income. Provision for loan losses rose by KRW1,266.7 billion from 2007 to KRW1,811.3 billion over, with provision expenses related to corporate loans accounting for the bulk of the increase. This expansion in corporate provision for loan losses reflected ample provisioning in the 4th quarter in consideration of restructuring in the shipbuilding and construction industries, as well as aggressive provisioning against potential loan losses in connection with the application of Forward-Looking Criteria (FLC).

## Non-operating Income

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Gain or loss on disposal of tangible assets	2.6	9.0	(6.3)	-70.0%
Gain or loss on using Equity Method	369.8	260.0	109.8	42.2%
Gain on valuation using Equity Method of Accounting	(30.3)	99.7	(130.0)	-130.4%
Gain or loss on Sales of Securities using Equity Method of Accounting	400.1	160.3	239.8	149.6%
Others	(25.6)	27.4	(53.1)	-193.8%
<b>Non-operating income</b>	<b>346.8</b>	<b>296.4</b>	<b>50.4</b>	<b>17.0%</b>

Non-operating income increased by 17.0% to KRW346.8 billion compared to the previous year. This rise was led by an increase in gain on disposal of tangible assets, which grew by KRW109.8 billion from a year earlier to record KRW369.8 billion. Contributing to the increase in gain on disposal of tangible assets was the Bank's sale of shares of Bank Internasional Indonesia (BII) in the 3rd quarter, which led to a gain on sales of securities using equity method accounting of KRW239.8 billion over 2007 to KRW400.1 billion.

# Financial Status

## Balance Sheet Summary

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Total assets</b>	<b>262,093.2</b>	<b>218,866.0</b>	<b>43,227.2</b>	<b>19.8</b>
Cash & due from banks	7,728.2	6,544.8	1,183.4	18.1
Securities	34,928.9	30,777.3	4,151.6	13.5
Loans	198,694.9	171,550.0	27,144.9	15.8
Tangible assets	3,492.8	2,298.7	1,194.1	51.9
Other assets	17,248.4	7,695.2	9,553.2	124.1
<b>Total liabilities</b>	<b>244,779.1</b>	<b>202,828.3</b>	<b>41,950.8</b>	<b>20.7</b>
Deposits	158,867.9	138,858.7	20,009.2	14.4
Borrowings	19,149.0	15,355.9	3,793.1	24.7
Debentures	42,610.6	34,894.6	7,716.0	22.1
Other liabilities	24,151.6	13,719.1	10,432.5	76.0
<b>Total shareholders' equity</b>	<b>17,314.1</b>	<b>16,037.7</b>	<b>1,276.4</b>	<b>8.0</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>262,093.2</b>	<b>218,866.0</b>	<b>43,227.2</b>	<b>19.8</b>

The Bank's total assets stood at KRW262.9 trillion as of year-end 2008, representing a 19.8% increase from the previous year-end, or KRW43,227.2 billion, as a result of favorable loan market conditions due to rising demand for finance, despite the Bank's emphasis on enhancing asset quality and stable expansion of earnings assets in its sales strategies. Loans, the largest component of total assets, increased 15.8% or KRW27,144.9 billion to KRW198.7 trillion. Cash and due from banks rose by 18.1% from a year earlier to record KRW7,728.2 billion, while securities posted a 13.5% gain to KRW34,928.9 billion. Other assets showed a sharp increase as a result of increased derivatives in connection with volatile exchange rate fluctuations, while other liabilities also showed a comparable increase for the same reason.

Even amid increased funding costs and stiff competition for deposits among banks and other financial institutions, the Bank managed to secure stable funding sources through efforts to attract core deposits with an emphasis on developing diverse deposit-related new products. As a result, total deposits climbed 14.4% over 2007, rising KRW20,009.2 billion to KRW158.8 trillion. Borrowings swelled 24.7% over the previous year to KRW19,149.0 billion due to the effects of intensified competition in the deposit market and diversification of funding vehicles. In terms of capital expansion and liquidity requirement, debentures including subordinated bonds issued rose 22.1% from the year earlier to KRW42,610.6 billion. Consequently, total liabilities grew by 20.7% over 2007 to stand at KRW244.8 billion at year-end 2008.

With net income in the KRW1.5 trillion range following three consecutive years of net income in excess of KRW2 trillion, 2008 represents a steady though moderated net income performance. Shareholders' equity increased by 8.0% to KRW17,314.1 billion despite a paid-in capital increase of KRW500.0 billion in 4th quarter 2008.



# Management Discussion & Analysis

## Loan Portfolio

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Loans in won</b>	<b>174,355.6</b>	<b>152,446.2</b>	<b>21,909.4</b>	<b>14.4%</b>
Household loans	97,178.0	88,896.2	8,281.8	9.3%
Mortgage loans	45,329.2	41,240.7	4,088.5	9.9%
General loans	51,848.8	47,655.5	4,193.3	8.8%
Corporate loans	77,177.6	63,550.0	13,627.6	21.4%
SME loans	60,236.4	49,671.4	10,565.0	21.3%
Large corporate loans and others	12,269.6	7,692.4	4,577.2	59.5%
PPB	4,671.6	6,186.2	(1,514.6)	-24.5%
<b>Credit card receivables</b>	<b>11,527.5</b>	<b>10,436.8</b>	<b>1,090.7</b>	<b>10.5%</b>
Credit sales	6,068.2	5,559.1	509.1	9.2%
Cash advances	2,530.7	2,479.6	51.1	2.1%
Card loans	2,889.5	2,336.9	552.6	23.6%
Others	39.1	61.2	(22.1)	-36.1%
<b>Total loans</b>	<b>185,883.1</b>	<b>162,883.0</b>	<b>23,000.1</b>	<b>14.1%</b>

The Bank's profit-focused and stable loan policy and efforts to develop customized loan products resulted in a KRW23,000.1 billion increase in total loans over the previous year to KRW185,883.1 billion. Household loans were up 9.3% compared to 2007 to KRW97,178.0 billion. Despite weakness in the real estate market, housing loans continued to show steady growth, pushing mortgage loan totals up 9.9% over a year earlier to KRW45,329.2 billion, while general loans increased 8.8% to KRW51,848.8 billion. Active product development and cohesive marketing efforts targeting prime customers drove corporate loans up by 21.4%, or KRW13,627.6 billion over 2007, to KRW77,177.6 billion.

SME loans advanced by KRW10,565.0 billion to KRW60,236.4 billion owing to a balanced marketing strategy focused on attracting quality customers and the corporate customer management system, while large loans & others also increased due to the rising funding needs of large corporations.

Credit card receivables posted a 10.5% increase over the previous year to KRW11,527.5 billion. This expansion was led by growing credit sales, while card loans showed a substantial year-on-year increase in line with rising demand for personal finance. On the other hand, the increase in cash advance was nominal owing to strengthened risk management.

## Deposit and Debenture Composition

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Deposits in Won</b>	<b>130,960.8</b>	<b>119,580.6</b>	<b>11,380.2</b>	<b>9.5%</b>
Core deposits	46,522.0	47,106.3	(584.3)	-1.2%
Passbook deposits	15,039.0	15,531.7	(492.7)	-3.2%
General savings deposits	16,837.4	17,846.6	(1,009.2)	-5.6%
Corporate free savings deposits	10,736.1	9,500.6	1,235.5	13.0%
Others	3,909.5	4,227.4	(317.9)	-7.5%
Time & savings deposits	84,438.8	72,474.3	11,964.5	16.5%
Time deposits	73,685.4	61,808.6	11,876.8	19.2%
Mutual installment deposits	4,199.1	6,012.1	(1,813.0)	-30.2%
Others	6,554.3	4,653.6	1,900.7	40.8%
<b>Certificates of deposit</b>	<b>25,078.8</b>	<b>17,617.6</b>	<b>7,461.2</b>	<b>42.4%</b>
<b>RP, etc.</b>	<b>3,839.8</b>	<b>6,423.0</b>	<b>(2,583.2)</b>	<b>-40.2%</b>
<b>Total Deposits</b>	<b>159,879.4</b>	<b>143,621.2</b>	<b>16,258.2</b>	<b>11.3%</b>
<b>Total Debentures</b>	<b>42,610.6</b>	<b>34,894.6</b>	<b>7,716.0</b>	<b>22.1%</b>

As with loans, deposits in Won also increased relative to the previous year, rising by 9.5% to KRW130,960.8 billion. Of this total, core deposits recorded a slight contraction while time & savings deposits showed a solid 16.5% increase from a year earlier to KRW84,438.8 billion. Contributing to the decline in core deposits was the outflow of Land Compensation Funds that had flowed in the previous year, while the influx of floating funds fueled the increase in time & savings deposits. Meanwhile, the same factors behind the increase in time & savings deposits also caused a significant surge in certificates of deposit, which rose by KRW7,461.2 billion over the previous period to KRW25,078.8 billion. Consequently, although RP, etc. was down from a year earlier, total deposits marked a 11.3% gain to KRW159,897.4 billion. Owing to the issuance of subordinated bonds for capital expansion and to secure liquidity, debentures as of the end of the year increased substantially over 2007 to KRW42,610.6 billion.

# Management Discussion & Analysis

## BIS Capital Adequacy Ratio (CAR)

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Tier I capital</b>	<b>15,302.6</b>	<b>15,156.7</b>	<b>145.8</b>	<b>1.0%</b>
Paid-in capital	2,181.9	1,681.9	500.0	29.7%
Hybrid	898.5	903.7	(5.2)	-0.6%
Capital reserves	6,091.8	6,097.3	(5.5)	-0.1%
Retained earnings	8,485.9	7,775.3	710.6	9.1%
Treasury stock	(1,355.2)	0.0	(1,355.2)	n.a.
Others	(1,000.4)	(1,301.5)	301.1	n.a.
<b>Tier II capital</b>	<b>5,023.8</b>	<b>4,480.7</b>	<b>543.0</b>	<b>12.1%</b>
Revaluation reserves	177.2	177.2	0.0	0.0%
Provisions	485.6	1,953.4	(1,467.8)	-75.0%
45% of securities revaluation gain	160.8	61.2	99.6	162.7%
Subordinated term debt	4,745.4	2,226.6	2,518.8	113.1%
Others	(545.3)	62.3	(607.6)	-975.3%
<b>Total BIS capital</b>	<b>20,326.3</b>	<b>19,637.4</b>	<b>688.8</b>	<b>3.5%</b>
<b>Risk-weighted assets</b>	<b>154,261.3</b>	<b>155,598.8</b>	<b>(1,337.5)</b>	<b>-0.9%</b>
<b>BIS CAR</b>	<b>13.18%</b>	<b>12.62%</b>		<b>0.56%p</b>
<b>Tier I</b>	<b>9.92%</b>	<b>0.18%</b>		<b>0.18%p</b>
<b>Tier II</b>	<b>3.26%</b>	<b>2.88%</b>		<b>0.38%p</b>

As a result of active measures to strengthen its capital structure in response to the prolonged U.S. financial crisis, the Bank's BIS CAR rose by 0.56%p in 2008 to 13.18%. Tier I Capital increased by KRW145.8 billion over the previous year to KRW15,302.6 billion on the continued strong net income performance. Despite the effects of an increase in provisions, issuance of subordinated debt in 4th quarter 2008 boosted supplementary (Tier II Capital) by KRW543.0 billion to KRW5,023.8 billion. Consequently, total BIS capital in 2008 increased by KRW688.8 billion over 2007 to KRW20,326.3 billion, the highest level among domestic banks.

Due to efforts to enhance asset quality, the Bank curtailed risk-weighted assets by KRW1,337.5 billion from the previous year to KRW154,261.3 billion. This reduction led to a 0.18%p improvement in the Tier I ratio to 9.92%, and a 0.38% increase in the Tier II ratio to 3.26% over the year earlier.

## Asset Quality

(KRW in billions)

	2008	2007	Change	
			Amounts	%
<b>Total loans for NPL management</b>	<b>209,401.2</b>	<b>177,476.1</b>	<b>31,925.1</b>	<b>18.0</b>
Normal	203,852.2	174,735.8	29,116.4	16.7
Precautionary	2,900.8	1,426.8	1,474.0	103.3
Substandard	1,605.6	557.3	1,048.3	188.1
Doubtful	567.8	483.4	84.4	17.5
Estimated loss	474.8	272.8	202.0	74.0
Substandard & below (NPLs)	2,648.2	1,313.5	1,334.7	101.6
Substandard & below ratio (NPL ratio)	1.26%	0.74%		0.52%p
Loan loss reserves (LLR)	3,529.0	2,535.5	993.5	39.2
NPL coverage ratio	133.26%	193.03%		-59.77%p
Delinquency ratio	0.65%	0.59%		0.06%p
Write-offs	1,199.4	866.8	332.6	38.4
NPL sales	302.7	316.1	(13.4)	(4.2)

In line with solid growth in loan assets, total loans for NPL management—the criteria for classifying sound assets—stood at KRW209,401.2 billion as of year-end 2008, up KRW31,925.1 billion compared to year-end 2007. Despite rigorous management of bad debts in line with the Bank's sound management strategy focused on enhancing asset quality, the effects of 4th-quarter restructuring in the construction & shipbuilding industries and application of FLC, loans rated "substandard & below" marked a twofold increase over the previous year to KRW2,648.2 billion. Accordingly, the NPL ratio rose by 0.52%p over 2007 to 1.26%. Through active and conservative provisioning in a preemptive move against future potential loan losses, loan loss reserves (LLR) reached KRW3,529.0 billion as of the end of 2008, up 39.2% or KRW993.5 billion from the previous year. As a result of strict application of standards, including FLC, for classifying the asset soundness total loans for NPL management, the NPL coverage ratio decreased by 59.77%p from 2007 to 133.26% in 2008. Still, in view of the amount substandard & below loans, the NPL coverage ratio remains adequately high. Although the delinquency ratio edged up to 0.65% in 2008, the level is still regarded as extremely low.

## NPL by Segment

(KRW in billions)

	2008		2007		Change	
	NPL Ratio(a)		NPL Ratio(b)		Amounts	a - b
<b>Household</b>	<b>579.8</b>	<b>0.59%</b>	<b>573.6</b>	<b>0.64%</b>	<b>6.2</b>	<b>-0.05%p</b>
General	304.5	0.58%	282.0	0.59%	22.5	-0.01%p
Mortgage	275.3	0.61%	291.6	0.71%	(16.3)	-0.10%p
<b>Corporate</b>	<b>1,963.5</b>	<b>1.98%</b>	<b>649.3</b>	<b>0.85%</b>	<b>1,314.20</b>	<b>1.13%p</b>
SME	1,709.0	2.49%	575.4	1.05%	1,133.6	1.44%p
Large	254.5	0.83%	73.9	0.34%	180.6	0.49%p
<b>Credit card</b>	<b>104.9</b>	<b>0.85%</b>	<b>90.6</b>	<b>0.80%</b>	<b>14.3</b>	<b>0.05%p</b>
<b>Total</b>	<b>2,648.2</b>	<b>1.26%</b>	<b>1,313.5</b>	<b>0.74%</b>	<b>1,334.7</b>	<b>0.52%p</b>

As a result of strict loan evaluation policy pertaining to income level, repayment capability and collateral value, the NPL ratio for household loans contracted by 0.05%p from 2007 to 0.59%, with the Bank continuing to maintain asset quality at satisfactory levels. Preemptive and conservative group-level countermeasures against potential NPLs resulting from 4th-quarter restructuring in construction & shipbuilding and FLC reclassification led to a significant increase in the NPL ratio for corporate loans.

# Management Discussion & Analysis

This was the result of group strategies to take a preemptive response against potential weakening in corporate loan assets and to prevent additional losses amid the current economic recession. The NPL ratio for credit cards edged up by 0.05% owing to strengthened credit risk management focused on attracting quality card customers.

## Loan Loss Provisions

(KRW in billions)

	2008		2007		Change	
		Coverage Ratio(a)		Coverage Ratio(b)	%	a - b
<b>Household</b>	<b>1,352.6</b>	<b>233.29%</b>	<b>1,251.0</b>	<b>218.10%</b>	<b>8.1%</b>	<b>15.19%p</b>
General	706.3	231.95%	655.2	232.34%	7.8%	-0.39%p
Mortgage	646.3	234.76%	595.8	204.32%	8.5%	30.44%p
<b>Mortgage</b>	<b>1,891.5</b>	<b>96.33%</b>	<b>1,029.6</b>	<b>158.57%</b>	<b>83.7%</b>	<b>-62.24%p</b>
SME	1,545.0	90.40%	805.3	139.95%	91.9%	-49.55%p
Large	346.5	136.15%	224.3	303.52%	54.5%	-167.37%p
<b>Credit card</b>	<b>284.9</b>	<b>271.59%</b>	<b>254.9</b>	<b>281.35%</b>	<b>11.8%</b>	<b>-9.76%p</b>
<b>Total</b>	<b>3,529.0</b>	<b>133.26%</b>	<b>2,535.5</b>	<b>193.03%</b>	<b>39.2%</b>	<b>-59.77%p</b>

Loan loss provisions grew by 39.2% over the year earlier to KRW3,529.0 billion. However, due to the Bank's aforementioned preemptive and conservative asset quality management policy, strengthened classification criteria for loans rated "substandard & below" led to a 59.77% decrease in the NPL coverage ratio to 133.26%. The NPL coverage ratio for household loans improved by 15.19%p over 2007 to 233.29%, but owing to the increase in corporate loans rated "substandard & below," the NPL coverage ratio for that loan segment declined by 62.24%p to 96.33%. The NPL coverage ratio for credit cards dipped slightly to 271.59%, but still remains at a very high level.

## Delinquency

(KRW in billions)

	2008		2007		Change	
		Delinquency Ratio		Delinquency Ratio	%	a - b
<b>Household</b>	<b>598.1</b>	<b>0.61%</b>	<b>607.4</b>	<b>0.68%</b>	<b>-1.5%</b>	<b>-0.07%p</b>
General	295.2	0.56%	243.9	0.51%	21.0%	0.05%p
Mortgage	302.9	0.67%	363.5	0.88%	-16.7%	-0.21%p
<b>Corporate</b>	<b>531.6</b>	<b>0.58%</b>	<b>299.7</b>	<b>0.41%</b>	<b>77.4%</b>	<b>0.17%p</b>
SME	512.7	0.78%	297.4	0.56%	72.4%	0.22%p
Large	18.9	0.07%	2.3	0.01%	721.7%	0.06%p
<b>Credit card</b>	<b>167.8</b>	<b>1.46%</b>	<b>115.9</b>	<b>1.11%</b>	<b>44.8%</b>	<b>0.35%p</b>
<b>Total</b>	<b>1,297.5</b>	<b>0.65%</b>	<b>1,023.0</b>	<b>0.59%</b>	<b>26.8%</b>	<b>0.06%p</b>

In spite of the much higher potential for increased delinquencies due to the general economic slowdown in 2008, the Bank's delinquency ratio in 2008 rose only slightly from 2007 to a comparatively low 0.65%, reflecting strengthened risk management and continuing efforts for early collection of delinquent loans. By loan sector, the household delinquency ratio edged ever lower, falling by 0.07%p from the previous year to 0.61%. However, the effects of economic stagnation were felt by the corporate and card segments, as the delinquency ratio for corporate loans rose 0.17%p from 2007 to 0.58% in 2008, and the credit card delinquency ratio jumped 0.35%p to record 1.46%. Despite these increases in corporate and credit card delinquency ratios, the ratios themselves remain at exceptionally low levels in comparison with those recorded in 2006.



## KB Investment & Securities

(KRW in billions)

	2008*	2007*	Change	
			Amount	%
Brokerage commissions	15.5	10.0	5.5	55.0
Underwriting commissions	30.2	12.5	17.6	140.4
Consulting fee	8.9	9.5	-0.6	-6.8
Other commissions	25.7	9.9	15.8	159.9
Gain on valuation of securities	6.6	-1.6	8.2	n.a.
Gain on derivatives transactions	-6.2	-0.8	-5.4	n.a.
Interest income & expenses	45.0	8.7	36.3	415.0
Commission expenses	2.8	2.8	-0.0	-1.3
General & administrative expenses	51.3	32.7	18.6	57.0
Other operating income & expenses	-21.3	1.5	-22.7	n.a.
Net income before income tax	50.4	14.3	36.1	252.7
<b>Net income</b>	<b>34.8</b>	<b>10.9</b>	<b>23.9</b>	<b>217.9</b>
Cash and deposits	75.3	37.7	37.5	99.6
Securities	1,624.3	252.5	1,371.7	543.2
Derivatives	0.0	0.0	0.0	466.9
Loans	237.8	7.8	230.0	2961.2
Tangible assets	2.4	0.7	1.8	259.9
Other assets	112.5	7.1	105.3	1472.9
<b>Total assets</b>	<b>2,052.3</b>	<b>305.8</b>	<b>1,746.4</b>	<b>571.0</b>
Deposits	30.7	8.8	21.9	249.3
Borrowings	1,569.5	116.8	1,452.7	1243.5
Other liabilities	129.9	24.3	105.7	435.2
<b>Total liabilities</b>	<b>1,730.2</b>	<b>149.9</b>	<b>1,580.3</b>	<b>1054.2</b>
<b>Total shareholders' equity</b>	<b>322.1</b>	<b>155.9</b>	<b>166.2</b>	<b>106.6</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,052.3</b>	<b>305.8</b>	<b>1,746.4</b>	<b>571.0</b>

\* Based on Calendar Year

KB Investment & Securities earned net income of KRW34.9 billion in 2008, an increase of 217.9% compared to the previous year. Operating revenue and operating income both increased more than 200%, with trust income contributing KRW15.5 billion to operating revenue, up 55.0% from a year earlier due to growth in number of contracts. Underwriting commissions increased KRW17.6 billion to KRW30.2 billion. This was due to an increase in underwriting of bonds and ABCP. Growth in interest income of ABCP and loans and growth in interest income of bonds after the establishment of the Bond Sales Team resulted in interest income of KRW45 billion, up more than fivefold over a year earlier. Loss on valuation of securities of KRW1.6 billion in 2007 was converted to a gain of KRW6.6 billion in 2008.

As of the end of 2008, total assets stood at KRW2,052.3 billion, up significantly from growth from last year of KRW305.8 billion. The main growth driver of total assets was the increase in amount of securities held, which surged KRW1,371.7 billion to KRW1,624.3 billion. This was also the reason behind the upward trend in operating income, which was the increase in ABCPs held and increase in bonds held after the establishment of Bond Sales Team. Moreover, due to an increase in PF sales, the scale of loans also rose by a wide margin compared to the previous year, recording KRW237.8 billion. The aforementioned increase in assets was the result of customer deposits and borrowings, which rose by KRW1,452.7 billion to record KRW1,569.5 billion as of year-end 2008. Total shareholders' equity more than doubled from 2007 owing to the recording of net income, as well as to a paid-in capital increase which resulted in gains in paid-in capital and capital surplus of KRW28 billion and KRW111.9 billion, respectively.

# Management Discussion & Analysis

## KB Life Insurance

(KRW in billions)

	2008*	2007*	Change	
			Amounts	%
Operating revenue	715.9	577.3	138.6	24.0
Operating expenses	723.7	576.0	147.7	25.6
Operating income	-7.8	1.2	-9.1	n.a.
Non-operating income	0.0	0.0	-0.0	-0.7
Non-operating expenses	0.9	0.0	0.9	2,258.5
Net income before income tax	-8.7	1.2	-9.9	n.a.
<b>Net income</b>	<b>-6.5</b>	<b>0.9</b>	<b>-7.4</b>	<b>n.a.</b>
Cash and deposits	99.8	54.4	45.4	83.5
Securities	1,293.1	913.2	379.9	41.6
Loans	66.8	38.2	28.6	75.0
Tangible assets	3.6	1.2	2.5	206.5
Other assets	153.0	103.6	49.4	47.7
Separate account assets	153.0	55.5	97.5	175.6
<b>Total assets</b>	<b>1,769.3</b>	<b>1,166.1</b>	<b>603.3</b>	<b>51.7</b>
Policy reserve	1,470.0	1,047.2	422.8	40.4
Policyholders' equity adjustment	-2.0	-1.0	-1.0	100.8
Other liabilities	19.3	12.8	6.5	51.2
Separate account liabilities	155.5	56.2	99.3	176.9
<b>Total liabilities</b>	<b>1,642.8</b>	<b>1,115.1</b>	<b>527.7</b>	<b>47.3</b>
<b>Total shareholders' equity</b>	<b>126.5</b>	<b>50.9</b>	<b>75.6</b>	<b>148.4</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,769.3</b>	<b>1,166.1</b>	<b>603.3</b>	<b>51.7</b>

\* Based on Calendar Year

Despite declining sales of foreign insurance companies, increasing policy cancellations and decreasing demands for investment-type insurance products amid the global financial crisis, KB Life Insurance managed to achieve operating revenue of KRW715.9 billion, up 24% compared to the previous year, thanks to the successful launch of its DM and AM channels in February 2008. However, the adverse effects of the U.S. subprime mortgage crisis led to valuation loss on synthetic CDOs denominated in foreign currencies, and in loss on valuation amount of CRS. Consequently, operating expenses rose by KRW147.7 billion over 2007, recording KRW723.7 billion. In total, KRW7.8 billion and KRW6.5 billion worth of operating loss and total net loss, respectively, were recorded.

Total assets as of year-end 2008 stood at KRW1,769.3 billion, reflecting a surge of KRW603.3 billion from a year earlier. The main factor behind the increase in assets was a rise in securities held. The balance of securities held at year-end 2008 was KRW1,293.1 billion, up KRW379.9 billion from 2007. Special bonds and corporate bonds were the main contributors to this increase. Cash and deposits also rose by KRW45.4 billion to KRW99.8 billion at 2008 year-end, primarily as a result of increased savings deposits and other assets, which swelled by KRW49.4 billion due to increase in deferred acquisition costs. Total liabilities increased by KRW527.7 billion to KRW1,642.8 billion year on year, with the major contributor being policy reserve, which expanded by KRW422.8 billion to KRW1,470.0 billion. Total shareholders' equity also increased, rising by KRW75.6 billion to KRW126.5 billion due to paid-in capital increase of KRW86.0 billion.

## KB Asset Management

(KRW in billions)

	2008*	2007*	Change	
			Amounts	%
Operating revenue	70.3	53.5	16.8	31.4
Investment trust fees	59.7	46.0	13.7	29.8
Investment discretionary fees	4.7	3.2	1.5	45.9
Operating expenses	31.5	22.7	8.8	39.0
Commission expenses	9.6	4.2	5.4	126.3
General & admin. expenses	21.3	18.4	3.0	16.2
Operating income	38.8	30.9	8.0	25.8
Non-operating income (loss)	-0.2	-0.0	-0.2	n.a.
Net income before income tax	38.6	30.8	7.8	25.1
<b>Net income</b>	<b>27.9</b>	<b>22.2</b>	<b>5.6</b>	<b>25.3</b>
Cash and deposits	106.8	90.9	16.0	17.6
Securities	3.8	0.8	3.0	350.9
Loans	1.7	1.3	0.5	36.4
Tangible assets	0.1	0.1	0.0	27.8
Other assets	14.3	11.8	2.4	20.6
<b>Total assets</b>	<b>126.8</b>	<b>104.9</b>	<b>21.8</b>	<b>20.8</b>
Deposits	0.6	0.4	0.3	65.2
Other liabilities	9.7	8.3	1.4	16.5
<b>Total liabilities</b>	<b>10.3</b>	<b>8.7</b>	<b>1.6</b>	<b>18.7</b>
<b>Total shareholders' equity</b>	<b>116.5</b>	<b>96.3</b>	<b>20.2</b>	<b>21.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>126.8</b>	<b>104.9</b>	<b>21.8</b>	<b>20.8</b>

\* Based on Calendar Year

KB Asset Management focused on growth-oriented equity funds, the core driver of industry growth in 2008, achieving a 76% expansion in assets under management (AUM) of domestic equity funds, more than twice the industry average. The growth in AUM led to an increase in operating revenue of KRW16.8 billion to KRW70.3 billion, up 31.4% growth from the previous year. Notably, revenue from trust account investments increased by KRW13.7 billion over 2007 to KRW59.7 billion, while operating expenses also trended upwards, rising KRW8.8 billion to KRW31.5 billion. Commission expenses increased by KRW5.4 billion to KRW9.6 billion due to higher commissions from overseas management, and general & administrative expenses rose by KRW3.0 billion to KRW21.3 billion due to increased employee salaries,

Overall, operating income posted a KRW8.0 billion increase compared to the previous year to KRW38.8 billion, and net income grew by 25.3%, recording KRW27.9 billion. Total assets as of the end of 2008 stood at KRW126.8 billion, reflecting an upswing of 20.8%. This was due to the increase in amount of CDs held within cash and deposits account. Securities also posted a significant increase on rising investments in bonds, standing at KRW3.8 billion at year-end 2008. Total liabilities increased by 18.7% or KRW1.6 billion from the previous year, recording KRW10.3 billion, mirroring the increase achieved in the previous year. Total shareholders' equity rose KRW20.2 billion relative to 2007 on higher net income recorded, reaching KRW116.5 billion, while paid-in capital remain unchanged from the previous year.

# Management Discussion & Analysis

## KB Real Estate Trust

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Operating revenue	55.8	70.0	-14.2	-20.3
Revenue from trust account	25.0	34.8	-9.9	-28.4
Additional operating revenue	11.8	16.2	-4.4	-27.2
Interest income	19.0	18.9	0.1	0.5
Operating expenses	51.0	32.2	18.7	58.1
Operating income	4.8	37.8	-32.9	-87.2
Non-operating income	0.9	2.7	-1.8	-67.5
Non-operating expenses	2.4	0.5	1.9	366.6
Net income before income tax	3.3	39.9	-36.7	-91.8
<b>Net income</b>	<b>1.2</b>	<b>28.8</b>	<b>-27.7</b>	<b>-95.9</b>
Current assets	179.9	173.4	6.5	3.7
Non-current assets	41.5	85.6	-44.2	-51.6
<b>Total assets</b>	<b>221.4</b>	<b>259.1</b>	<b>-37.7</b>	<b>-14.6</b>
Current liabilities	90.7	64.1	26.6	41.5
Non-current liabilities	33.2	78.6	-45.4	-57.7
<b>Total liabilities</b>	<b>123.9</b>	<b>142.7</b>	<b>-18.8</b>	<b>-13.2</b>
<b>Total shareholders' equity</b>	<b>97.5</b>	<b>116.4</b>	<b>-18.9</b>	<b>-16.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>221.4</b>	<b>259.1</b>	<b>-37.7</b>	<b>-14.6</b>

In 2008, recession in the real estate market and intensified competition led to reductions in commission rates, prompting a contraction in the size of real estate trust market. KB Real Estate Trust's operating revenue decreased by 20.3% relative to 2007, recording KRW55.8 billion. Operating expenses increased by KRW18.7 billion to KRW51 billion due to a hike in employees' salaries, rising amortization expenses, and higher interest expenses following an increase in borrowings. Consequently, both operating income and net income declined in 2008, falling to KRW4.8 billion and KRW1.2 billion, respectively.

Total assets recorded at the end of 2008 stood at KRW221.4 billion, representing a decline of KRW37.7 billion from 2007. This decrease in assets stemmed mainly from a reduction in scale of investment assets, most notably a contraction in long-term loans to trust account due to the loan rollover service of the National Housing Fund loans related to real estate trusts.

However, current assets increased KRW6.5 billion over a year earlier, mainly as a result of growing short-term loans to trust account related to property trusts and short-term lending. Total liabilities declined KRW18.8 billion from the previous year, recording KRW123.9 billion. This was due to the same factor as the reduction in scale of investment assets, namely, the reduction in long-term liabilities due to the loan rollover service of the National Housing Fund. Total shareholders' equity fell by KRW18.9 billion to KRW97.5 billion year on year following a dividend payout.

## KB Investment

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Operating revenue	11.8	22.2	-10.4	-46.8
Investment & other revenues	7.3	12.0	-4.7	-39.2
Partnership revenues	4.5	10.2	-5.7	-55.7
Operating expense	8.6	9.1	-0.5	-5.5
Investment & financing expenses	3.2	2.7	0.5	20.0
Partnership expenses	0.1	0.4	-0.3	-70.7
General & administrative expenses	5.3	6.0	-0.8	-12.8
Operating income	3.2	13.1	-9.9	-75.3
Non-operating income (loss)*	-0.0	0.1	-0.2	n.a.
<b>Net income</b>	<b>3.2</b>	<b>13.2</b>	<b>-10.0</b>	<b>-75.8</b>
Current assets	0.9	1.8	-0.9	-51.4
Investment assets	107.4	100.5	7.0	6.9
Other non-current assets	7.1	5.7	1.4	24.1
<b>Total assets</b>	<b>115.4</b>	<b>108.0</b>	<b>7.4</b>	<b>6.8</b>
<b>Total liabilities</b>	<b>11.6</b>	<b>3.1</b>	<b>8.5</b>	<b>271.0</b>
<b>Total shareholders' equity</b>	<b>103.8</b>	<b>104.9</b>	<b>-1.1</b>	<b>-1.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>115.4</b>	<b>108.0</b>	<b>7.4</b>	<b>6.8</b>

\* Including Income Tax Expenses

In 2008, KB Investment's operating revenues shrank by KRW10.4 billion, amounting to KRW11.8 billion, due mainly to the slowdown in disposal of investment assets and deterioration of invested companies. In line with the lower number of new companies listing on the Kosdaq in 2008 compared with the previous year, the number of transactions in the Kosdaq market also showed a steep downturn, resulting in a slump in venture capital industry returns on investment as a whole. This was amply illustrated by the number of Kosdaq-listed firms whose stock prices dipped to levels below their public offering prices. Thus, the company's investment & other revenues dropped by KRW4.7 billion year on year, posting KRW7.3 billion in 2008, while partnership revenues recorded KRW4.5 billion, down KRW5.7 billion. During the same period, operating expenses declined slightly thanks to lower general & administrative expenses including salaries, despite a KRW0.5 billion increase in investment & financing expenses due primarily to higher interest expenses from borrowings. As a result, both operating income and net income decreased over the previous year, both ending at KRW3.2 billion.

Total assets at the end of 2008 reached KRW115.4 billion, improving KRW7.4 billion compared to a year earlier. Investment assets totaled KRW107.4 billion, up KRW7 billion from the end of the prior year, due to an increase in PEF investment. Other non-current assets rose KRW1.4 billion, amounting to KRW7.1 billion, owing to an increase in long-term receivables. Total liabilities grew KRW8.5 billion compare to the end of the previous year to record KRW11.6 billion on increased borrowings for new investment. Total shareholders' equity decreased by KRW1.1 billion over the previous year to KRW103.8 billion owing to loss on valuation of investment assets, despite the company posting a positive net income figure.



# Management Discussion & Analysis

## KB Futures

[KRW in billions]

	2008*	2007*	Change	
			Amounts	%
Operating revenue	24.8	15.2	9.6	63.0
Operating expenses	16.1	10.6	5.5	52.4
Operating income	8.7	4.6	4.1	87.3
Non-operating income	0.0	0.0	0.0	466.7
Non-operating expenses	0.4	0.1	0.3	230.9
Income before income tax	8.3	4.5	3.8	84.0
<b>Net income</b>	<b>5.8</b>	<b>3.2</b>	<b>2.6</b>	<b>80.1</b>
Cash and bank deposits	119.1	104.3	14.8	14.2
Securities	25.5	16.8	8.7	51.9
Tangible assets	0.7	0.4	0.3	58.1
Other assets	4.8	4.6	0.2	3.7
<b>Total assets</b>	<b>150.1</b>	<b>126.1</b>	<b>24.0</b>	<b>19.0</b>
Deposits	107.0	94.0	13.0	13.8
Other liabilities	4.9	2.0	2.9	146.6
<b>Total liabilities</b>	<b>111.9</b>	<b>96.0</b>	<b>15.9</b>	<b>16.6</b>
<b>Total shareholders' equity</b>	<b>38.2</b>	<b>30.1</b>	<b>8.1</b>	<b>26.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>150.1</b>	<b>126.1</b>	<b>24.0</b>	<b>19.0</b>

\* Based on Calendar Year

KB Futures' total operating revenue in 2008 stood at KRW24.8 billion, representing a solid 63.0% gain over the prior year. This growth came mostly from gains on proprietary trading, including notable trading volume growth for treasury bonds and currency futures due to volatile interest and exchange rates amid the global financial crisis. An increase in interest income on due from banks on customer deposits for futures trading was another factor behind the growth in operating revenue. Operating expenses recorded KRW16.1 billion, expanded KRW5.5 billion over a year earlier owing to an increase in salaries. Thus, operation income improved by KRW4.0 billion over the previous year to KRW8.7 billion amid a KRW2.6 billion increase in net income, reaching KRW5.8 billion.

Total assets at year-end 2008 stood at KRW150.1 billion, expanding KRW24.0 billion compared to the end of 2007. Cash and bank deposits recorded a KRW14.8 billion improvement to KRW119.1 billion due to the growth in customer deposits in futures trading. Due primarily to an increase in book value from gain on valuation of available-for-sale securities, securities also showed a sharp 51.9% or KRW8.7 billion increase to KRW25.6 billion in 2008. The KRW15.9 billion surge in total liabilities was due mainly to an increase of deposits, including customer deposits for futures trading, reaching KRW111.9 billion as of 2008. Total shareholders' equity was KRW38.2 billion, up KRW8.1 billion over the end of 2007, owing to gain on valuation of available-for-sale securities, as well as net income.

## KB Credit Information

[KRW in billions]

	2008	2007	Change	
			Amounts	%
Operating revenue	54.3	59.8	-5.5	-9.2
Cost of sales	32.0	35.2	-3.2	-9.1
Selling, general & administrative expenses	17.9	18.6	-0.7	-3.8
Operating income	4.4	6.0	-1.6	-26.7
Non-operating income	1.4	1.3	0.1	7.7
<b>Net income</b>	<b>4.1</b>	<b>5.3</b>	<b>-1.2</b>	<b>-22.6</b>
Current assets	37.3	27.2	10.1	37.1
Non-current assets	13.3	20.4	-7.1	-34.8
<b>Total assets</b>	<b>50.6</b>	<b>47.6</b>	<b>3.0</b>	<b>6.3</b>
Current liabilities	4.1	4.6	-0.5	-10.9
Non-current liabilities	2.0	2.5	-0.5	-20.0
<b>Total liabilities</b>	<b>6.1</b>	<b>7.1</b>	<b>-1.0</b>	<b>-14.1</b>
<b>Total shareholders' equity</b>	<b>44.5</b>	<b>40.5</b>	<b>4.0</b>	<b>9.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>50.6</b>	<b>47.6</b>	<b>3.0</b>	<b>6.3</b>

The year 2008 was a difficult one for the credit information industry owing to the ongoing decline in unpaid debt, eroding repayment ability amid domestic and international economic stagnation, creation of the KAMCO-run credit recovery fund, and tightening of debt collection-related regulations, leading to declines in sales of all seven leading debt collection companies over 2007. Despite this challenging environment, KB Credit Information produced positive results through business activation efforts to increase collection performance, slim down its network and workforce, and diversify its business lines. Sales in 2008 decreased by 9.2% to KRW54.3 billion, while cost of sales and selling, general & administrative expenses fell 9.1% and 3.8%, respectively, to KRW32.0 billion and KRW17.9 billion due to lower payment commissions brought on by the downturn in sales and companywide cost-saving efforts. These efforts included continual restructuring, the return of over 10% of executive pay, an employee wage freeze, a hiring freeze, and suppression of all non-essential budgetary outlays. Consequently, operating income contracted by KRW1.6 billion from the prior year to KRW4.4 billion, while net income posted KRW1.2 billion decline year on year, totaling KRW4.1 billion.

Total assets at the end of 2008 amounted to KRW50.6 billion, rising KRW3.0 billion from the previous year-end. Current assets rose by KRW10.1 billion to record KRW37.3 billion, due mainly to increased time deposits and interest on receivables. Non-current assets showed a modest decline compared to the end of the year earlier on disposal and depreciation of office supplies. Total shareholders' equities grew KRW4.0 billion to KRW44.5 billion in line with net income.

# Management Discussion & Analysis

## KB Data Systems

(KRW in billions)

	2008	2007	Change	
			Amounts	%
Operating revenue	133.3	79.1	54.2	68.5
Cost of sales	120.9	69.7	51.3	73.6
Selling, general & administrative expenses	4.6	4.2	0.4	9.1
Operating income	7.8	5.3	2.5	47.7
Non-operating income	1.6	0.7	0.8	115.8
Non-operating expenses	0.6	0.0	0.6	5,241.7
Income before income tax	8.7	6.0	2.7	45.5
<b>Net income</b>	<b>6.3</b>	<b>4.3</b>	<b>2.0</b>	<b>47.5</b>
Current assets	43.9	41.0	2.9	7.0
Non-current assets	2.6	8.1	-5.5	-67.5
<b>Total assets</b>	<b>46.5</b>	<b>49.1</b>	<b>-2.6</b>	<b>-5.3</b>
Current liabilities	18.3	26.3	-8.0	-30.3
Non-current liabilities	1.7	1.8	-0.1	-5.7
<b>Total liabilities</b>	<b>20.0</b>	<b>28.1</b>	<b>-8.1</b>	<b>-28.7</b>
<b>Total shareholders' equity</b>	<b>26.5</b>	<b>21.1</b>	<b>5.5</b>	<b>26.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>46.5</b>	<b>49.1</b>	<b>-2.6</b>	<b>-5.3</b>

Despite the global financial crisis and economic stagnation of 2008, Korea's IT service market posted stable growth. According to a report by the Korea Information Technology Service Industry Association, the financial sector showed the sharpest increase in IT demand of any industry outside of the public sector. This was stoked by rising demand for solutions related to next-generation banking systems, International Financial Reporting Standards (IFRS), Anti-Money Laundering (AML) controls and effectuation of Korea's Financial Services & Capital Markets Act (FSCMA). Through aggressive marketing activities and IT quality improvement, KB Data Systems carried out Kookmin Bank's large-scale next-generation banking system, including internet banking and information gathering, along with active non-group and overseas project operations. As a result, sales surged 68.5% from a year earlier to KRW133.3 billion. Cost of sales increased by KRW51.3 billion to KRW120.9 billion, resulting in KRW7.8 billion in operating income, up KRW2.5 billion over 2007. Meanwhile, KRW6.3 billion in net income was recorded, reflecting a gain of KRW2.0 billion from the previous year.

Total assets in 2008 slipped KRW2.6 billion from the previous year to KRW46.5 billion. This reduction was mainly due to a KRW2.9 billion increase in quick assets, amounting to KRW43.9 billion, resulting from rising due from banks and service receivables, offset by a KRW5 billion decrease in other non-current assets due to the conversion of office rental deposit to monthly payment. Total liabilities were down by KRW8.1 billion to KRW20.0 billion owing to the reduction in payables stemming from the decrease in account receivables. Total shareholders' equity stood at KRW26.5 billion, up KRW5.5 billion from the previous year due to the increase in net income.

## 2009 Outlook

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KB Financial Group will maintain its core competence with its management strategy of building a foundation for sustainable growth through quality management, while pursuing effective management and quality-based growth. In order to achieve this, it will strengthen the foundation of future growth through stricter risk management.

In order to prepare for the reduction in income generation and increase in expenses due to the recent economic downturn, KB Financial Group implements stricter internal management through more effective cost efficiencies and profit-focused quality growth. Moreover, KB Financial Group will emphasize aggressive risk management through the early establishment of an integrated risk management system and a thorough understanding of financial & non-financial risks. Through an effective risk management monitoring system, it will create a sustainable growth foundation to improve asset quality.

In the area of sales, KB Financial Group will consistently develop new financial products which will earn high income and strong customer satisfaction. At the same time, it will diversify its income structure and maintain a strong position in the domestic market. While securing sustained growth in interest income, the group will strive to expand the non-interest income market, focusing on the development of employees' individual abilities and differentiated customer services. Moreover, KB Financial Group will maintain its focus on foreign markets in order to satisfy customers' global financial needs and to keep pace with the accelerating trend of global financial market consolidation, and through the development of IT systems, it will expand its capabilities even further.

KB Financial Group will also expand social contribution activities through community services and various regional programs in order to make a more meaningful contribution to society as a responsible corporate citizen. Through the above tasks, KB Financial Group will continue to meet the needs and expectations of shareholders, customers and employees as Korea's leading financial group.

# Report of Independent Auditors

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www.samil.com  
LS Yongsan Tower  
191 Hangangno 2-ga, Yongsan-gu  
Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

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

We have audited the accompanying non-consolidated balance sheet of KB Financial Group Inc. (the "Company") as of December 31, 2008, and the related non-consolidated statements of income, appropriation of retained earnings, changes in shareholders' equity and cash flows for the period from September 29, 2008 to December 31, 2008, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Kookmin Bank and certain other subsidiaries, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The investments in those subsidiaries represent 98.65% of the Company's total assets as of December 31, 2008, and the equity in their net losses represents 1.65% of the Company's net income before income taxes for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the non-consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of KB Financial Group Inc. as of December 31, 2008, and the results of its operations, appropriation of retained earnings, the changes in its shareholders' equity, and its cash flows for the period from September 29, 2008 to December 31, 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

*Samil PricewaterhouseCoopers*

Seoul, Korea  
March 9, 2009

This report is effective as of March 9, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



# Non-Consolidated Balance Sheet

December 31, 2008

KB Financial Group Inc.

(in millions of Korean won)

	2008	
<b>Assets</b>		
Cash and due from banks (Notes 3, 19 and 21)	₩	1,849
Equity method investments (Notes 4 and 21)		16,345,052
Loans receivable, net (Notes 5 and 21)		199,000
Property and equipment, net (Note 6)		3,214
Other assets, net (Notes 7 and 19)		18,904
Total assets	₩	16,568,019
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Borrowings (Notes 8, 21 and 24)	₩	232,000
Debentures, net of discount (Note 8 and 21)		498,572
Other liabilities, net (Notes 9, 13 and 14)		8,836
Total liabilities		739,408
<b>Shareholders' equity</b>		
Common stock (Note 10)		1,781,758
Capital surplus (Note 11)		15,473,511
Capital adjustment (Note 4)		(3,145,102)
Accumulated other comprehensive income (Note 17)		1,087,503
Retained earnings		630,941
Total shareholders' equity		15,828,611
Total liabilities and shareholders' equity	₩	16,568,019

The accompanying notes are an integral part of these non-consolidated financial statements. See Report of Independent Auditors

# Non-Consolidated Statement of Income

For the period from September 29, 2008 to December 31, 2008

KB Financial Group Inc.		(in millions of Korean won)
		2008
<b>Operating revenues</b>		
Gain on valuation of equity method investments (Notes 4 and 22)	₩	633,981
Interest income		1,287
		635,268
<b>Operating expenses</b>		
Loss on valuation of equity method investments (Notes 4 and 22)		10,096
Interest expense		3,063
Loss on valuation and disposal of loans receivable		1,000
Commission expenses		2,270
Selling and administrative expenses (Note 16)		6,768
		23,197
Operating income		612,071
<b>Non-operating income</b>		
Income before income taxes		23
		612,094
<b>Income tax expense (Note 14)</b>		
Net income	₩	167
		611,927
<b>Per share data (Note 15)</b>		
Basic and diluted earnings per share	₩	2,134

The accompanying notes are an integral part of these non-consolidated financial statements. See Report of Independent Auditors

# Non-Consolidated Statement of Appropriation of Retained Earnings

For the period from September 29, 2008 to December 31, 2008

(Date of appropriations: March 27, 2009)

KB Financial Group Inc.

(in millions of Korean won)

	2008
<b>Unappropriated retained earnings</b>	
Changes in retained earnings of equity method investments	₩ 19,014
Net income	611,927
	630,941
<b>Appropriation of retained earnings</b>	
Legal reserve (Note 12)	61,200
Dividends	-
Voluntary reserve	568,000
	629,200
<b>Unappropriated retained earnings</b>	
<b>to be carried over to subsequent year</b>	₩ 1,741

The accompanying notes are an integral part of these non-consolidated financial statements. See Report of Independent Auditors

# Non-Consolidated Statement of Change in Shareholders' Equity

For the period from September 29, 2008 to December 31, 2008

KB Financial Group Inc.

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income and expense	Retained earnings	Total
September 29, 2008	₩ 1,781,758	₩ 15,481,189	₩ (4,208,098)	₩ -	₩ -	₩ 13,054,849
Net income	-	-	-	-	611,927	611,927
Changes in equity method investments	-	(7,678)	1,062,996	1,087,503	19,014	2,161,835
December 31, 2008	₩ 1,781,758	₩ 15,473,511	₩ (3,145,102)	₩ 1,087,503	₩ 630,941	₩ 15,828,611

The accompanying notes are an integral part of these non-consolidated financial statements. See Report of Independent Auditors

# Non-Consolidated Statement of Cash Flows

For the period from September 29, 2008 to December 31, 2008

KB Financial Group Inc.

(in millions of Korean won)

	2008
<b>Cash flows from operating activities</b>	
Net income	₩ 611,927
Adjustments to reconcile net income to net cash used in operating activities	
Loss on valuation of equity method investments	10,096
Stock compensation expense	463
Provision for severance benefits	347
Provision for possible loan losses	1,000
Depreciation and amortization	442
Interest expenses	24
Gain on valuation of equity method investments	(633,981)
Gain on valuation of pension plan assets	(21)
	(621,630)
Changes in operating assets and liabilities	
Increase in accounts receivable	(2)
Increase in accrued income	(1,225)
Increase in prepaid expenses	(1,607)
Increase in other assets	(236)
Increase in account payable	226
Increase in accrued expense	2,166
Increase in deferred tax liabilities	167
Increase in severance and retirement benefits	2,999
Increase in pension plan assets	(2,165)
Increase in withholding tax payables	171
	494
Net cash used in operating activities	(9,209)
<b>Cash flows from investing activities</b>	
Purchase of equity method investments	(500,000)
Loans granted	(200,000)
Purchase of property and equipment	(3,583)
Purchase of intangible assets	(2,082)
Increase in guarantee deposits	(13,825)
Net increase in restricted due from bank	(3)
Net cash used in investing activities	(719,493)
<b>Cash flows from financing activities</b>	
Proceeds from borrowings	232,000
Proceeds from debentures	498,548
Net cash provided by financing activities	730,548
Net increase in cash and cash equivalents	1,846
<b>Cash and cash equivalents</b>	
Beginning of period	-
End of period (Note 18)	₩ 1,846

The accompanying notes are an integral part of these non-consolidated financial statements. See Report of Independent Auditors

# Notes to Non-Consolidated Financial Statements

December 31, 2008

## 1. The Company

KB Financial Group Inc. (the "Company"), in accordance with Financial Holding Companies Act, was established on September 29, 2008, through stock transfer with former shareholders of 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. in order to provide management services and financing to affiliated companies. The headquarters are located at 9-1 Namdaemunro 2-ga, Jung-gu, Seoul. The Company's common stock as of December 31, 2008, is ₩ 1,781,758 million.

The Company is authorized to issue 1,000 million shares. The Company was listed on the Korea Exchange ("KRX") on October 10, 2008, and was also listed on the New York Stock Exchange ("NYSE") for its American Depository Shares ("ADS") on September 29, 2008.

Major shareholders as of December 31, 2008, are as follows:

Name of Shareholder	Number of Shares Owned	Percentage of Ownership(%)
National Pension Service	23,284,404	6.53
ING BANK N.V.,AMSTERDAM	18,045,437	5.06

Details of its subsidiaries are as follows:

### (1) Kookmin Bank

Kookmin Bank (the "Bank") was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing to the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective on January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act. The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Services Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the legal consolidation with Housing and Commercial Bank ("H&CB") on October 31, 2001 and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Kookmin Bank's common stock as of December 31, 2008, is ₩ 2,181,896 million.

The Bank's shares have been listed on the KRX since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were listed on the KRX on November 9, 2001. In addition, the Bank listed its ADS on the NYSE on November 1, 2001, following the consolidation with H&CB. H&CB listed its ADS on the NYSE on October 3, 2000, prior to the business combination. The Bank became a wholly owned subsidiary of the Company through comprehensive stock transfer on September 29, 2008. In addition, the Bank's listed shares and depository shares on the KRX and the NYSE were delisted on October 10, 2008 and September 26, 2008.

The Bank is engaged in the banking, trust, credit card and other relevant businesses according to the provisions of the General Banking Act, Trust Business Act, and Specialized Credit Financial Business Act, respectively. The Bank with headquarters based in Seoul operates through 1,245 domestic branches and offices (excluding 288 automated teller machine stations) and five overseas branches (excluding two subsidiaries and three offices) as of December 31, 2008.

### (2) KB Investment & Securities Co., Ltd.

KB Investment & Securities Co., Ltd. (the "KB Investment & Securities") was established on August 16, 1995, to engage in security trading, underwriting and brokerage services. On March 11, 2008, the former name of Hannuri Investment & Securities changed to KB Investment & Securities. Its headquarters are located in Seoul. KB Investment & Securities common stock as of December 31, 2008, is ₩ 78,000 million.



**(3) 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 investment in securities and on July 1997 started to engage in security investment trust operations under the Security Investment Trust Business Act. Its headquarters are located in Seoul. KB Asset Management's common stock as of December 31, 2008, is ₩ 38,338 million.

**(4) KB 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 service including land trust. Under Section 3 of the Trust Business Act, 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 Joeun Real Estate Trust Inc. Over 22 land trust operations are in progress, and a number of other trust services such as collateral trusts are already engaged and ready to operate. Its headquarters are located in Seoul. KB Real Estate Trust's common stock as of December 31, 2008, is ₩ 80,000 million.

**(5) KB Investment Co., Ltd.**

KB Investment Co., Ltd. (the "KB Investment") was established on March 27, 1990, to provide service to small startup companies. Main business operation is to invest in venture companies and small startup companies, and to organize a startup investment cooperative. On April 3, 1990, the company under Section 7 of the Support for Small and Medium Enterprise Establishment Act was listed on 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. On March 2001, the company, under the Industrial Development Act, was selected for Corporate Restructuring Company by the Ministry of Knowledge Economy. Its headquarters are located in Seoul. KB Investment's common stock as of December 31, 2008, is ₩ 44,759 million.

**(6) KB Futures Co., Ltd.**

KB Futures Co., Ltd. (the "KB Futures") was established on March 1997 to engage in futures trading, trust, intermediation, or brokerage services. The company became a member of the KRX on January 8, 1999. Its headquarters are located in Seoul. KB Futures' common stock as of December 31, 2008, is ₩ 20,000 million.

**(7) 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 service and credit research service. 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 common stock as of December 31, 2008, is ₩ 6,262 million.

**(8) 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 service. Its headquarters are located in Seoul. KB Data Systems' common stock as of December 31, 2008, is ₩ 8,000 million.

# Notes to Non-Consolidated Financial Statements

Details of its major second tier subsidiary are as follows:

## 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. 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 common stock as of December 31, 2008, is ₩ 156,000 million.

The percentage of ownership in subsidiaries as of December 31, 2008, is as follows:

Investors	Investees	Number of Shares	Ownership(%)
KB Financial Group Inc.	Kookmin Bank	436,379,116	100.00
	KB Investment & Securities Co., Ltd.	15,600,000	100.00
	KB Asset Management Co., Ltd.	7,667,550	100.00
	KB Real Estate Trust Co., Ltd.	16,000,000	100.00
	KB Investment Co., Ltd.	8,951,797	100.00
	KB Futures Co., Ltd.	4,000,000	100.00
	KB Credit Information Co., Ltd.	1,252,400	100.00
Kookmin Bank	KB Data Systems Co., Ltd.	800,000	100.00
	KB Financial Group Inc.	47,407,671	13.30
	KB Life Insurance Co., Ltd.	15,912,000	51.00
	KookminBank Int'l Ltd. (London)	20,000,000	100.00
KB Investment & Securities Co., Ltd.	KookminBank HongKong Ltd.	2,000,000	100.00
	KB Investment&Securities Hong Kong Limited	999,999	99.99
KB Investment Co., Ltd.	NPS-KBIC Private Equity Fund No.1	4,510,720,000	2.56

## 2. Significant Accounting Policies

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Services Commission. The Company has adopted SKFAS No. 1 through No. 24, except No. 14, in the preparation of its financial statements as of and for the period ended December 31, 2008. Significant accounting policies followed in the preparation of these financial statements are as follows:

### Equity Method Investments

Investments in equity securities of subsidiaries, over which the Company exercises a significant control or influence, are accounted for using the equity method. Under the equity method, the Company accounts for its proportionate ownership in the book value of the subsidiary in current operations as adjustment to income or loss, retained earnings, capital surplus, capital adjustments, or accumulated other comprehensive income depending on the nature of the underlying change in the book value of the subsidiaries. The acquisition cost of the Company stock owned by its subsidiaries is deducted from the Company's equity method investments and accounted as capital adjustment.

The Company discontinues the equity method for equity method investments when the Company's share of accumulated losses equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the subsidiaries equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Significant difference between expected cash flow from equity method investments and the Company's proportionate ownership in the net book value of the investees is accounted for impairment loss from equity method investments. When the estimated future expected cash flow from equity method investments exceeds the carrying value after impairment, such recovery is recorded in current operations up to the recorded impairment loss amount.

If the equity method investee is one of the Company's subsidiaries, which is subject to consolidation, the changes, arising from additional stock purchase or capital increase and from net difference of net asset value of investee and acquisition cost, in net asset from the date of consolidation are reflected as changes in capital surplus or capital adjustment in the Company's balance sheet.

The excess of the acquisition cost over the proportionate fair value of the investee's net asset is amortized using the straight-line method up to a maximum of 20 years. The excess of the proportionate fair value of net asset over the acquisition cost, arising from the agreed expected future loss or expense, is recognized as income when expected future loss or expense is incurred. The excess of the proportionate fair value of net asset over the acquisition cost arising with respect to identifiable non-monetary assets is recognized as income over the years using the weighted average useful lives of non-monetary assets. The excess of the proportionate fair value of net asset over the acquisition cost arising with respect to identifiable non-monetary assets is recognized as income and reflected to equity method investment at the date of acquisition.

Unrealized gains on transactions between the Company and subsidiaries are eliminated to the extent of the Company's interest in each equity method investee.

#### **Allowance for Loan Losses**

The Company provides an allowance for loan losses based on reasonable and objective analysis of the borrowers' capacity to repay their obligation.

#### **Property and Equipment**

The cost of property and equipment includes purchase costs, incidental costs directly related to preparing the property and equipment for use, and the discounted estimated costs to remove, dismantle or restore property and equipment at the end of the estimated useful lives of the related assets, when these costs meet the conditions for the recognition of liabilities.

Depreciation is computed using declining balance method based on the estimated useful lives of the assets as follows:

	Method	Estimated Useful Lives
Property and equipment	Declining balance method	4 years

Betterments and renewals, enhancing the value of the assets over their recently appraised value, are capitalized. However, routine maintenance and repairs are charged to expense as incurred.

The Company assesses the potential impairment of property and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets before impairment, net of accumulated depreciation, when the estimated recoverable value of the assets exceeds the carrying value after impairment.

# Notes to Non-Consolidated Financial Statements

## Intangible Assets

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized over the estimated economic useful lives of the related assets as follows:

Items	Depreciation Method	Estimated UsefulLife
Software	Straight-line	4 years
Others	Straight-line	4 years

The Company assesses the potential impairment of intangible asset when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the intangible assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired intangible assets is recorded in current operations up to the cost of the intangible assets before impairment, net of accumulated amortization, when the estimated recoverable value of the assets exceeds the carrying value after impairment.

## Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

## Accrued Severance Benefits

Employees and officers with at least a year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and officers were to terminate their employment as of the balance sheet date.

The Company has adopted a defined benefit pension. Accrued pension benefit is recognized for retired employees who are qualified and choose to receive payments from the pension plan. The accrued severance benefits and accrued pension benefits are presented as net of pension plan asset, and when pension plan assets exceed the accrued severance benefit and accrued pension benefits, the excess amount is presented as an investment asset.

## Share-Based Payments

The fair value of the goods or employee services received in exchange for the grant of the options is recognized as expense and capital adjustment when the settlement term is equitysettled share based payment. If the fair value of goods or employee services cannot be estimated reliably, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at balance sheet date and at settlement date. The change in fair value is recognized as expense.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

## Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

### Provision and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

### 3. Cash and Due from Bank

Cash and due from banks as of December 31, 2008, are summarized as follows:

(in millions of Korean won)			
	Bank	Interest Rate(%)	Amount
Due from bank	Kookmin Bank	3.30	₩ 1,849

Restricted cash and due from bank as of December 31, 2008, are as follows:

(in millions of Korean won)		
	Amount	Restriction
Due from Bank in Won	₩ 3	Guarantee deposits

### 4. Equity Method Investments

Equity method investments as of December 31, 2008, are as follows:

(in millions of Korean won)				
	Number of Shares	Ownership(%)	Amount	
			Acquisition Cost	Book Value
Kookmin Bank <sup>1</sup>	436,379,116	100.00	12,727,020	15,506,919
KB Investment & Securities Co., Ltd.	15,600,000	100.00	418,331	419,267
KB Asset Management Co., Ltd.	7,667,550	100.00	101,961	116,458
KB Real Estate Trust Co., Ltd.	16,000,000	100.00	107,643	97,469
KB Investment Co., Ltd.	8,951,797	100.00	104,741	103,788
KB Futures Co., Ltd.	4,000,000	100.00	35,734	38,206
KB Credit Information Co., Ltd.	1,252,400	100.00	42,721	44,488
KB Data Systems Co., Ltd.	800,000	100.00	16,698	18,457
			13,554,849	16,345,052

<sup>1</sup> The acquisition cost of Kookmin Bank includes the contribution of ₩ 500,000 million for the period ended December 31, 2008.

The changes in the difference between the cost of investment and the amount of the underlying equity in investee's net assets are summarized as follows:

(in millions of Korean won)				
	Beginning Balance	Increase(Decrease)	Amortization	Ending Balance
KB Investment & Securities Co., Ltd.	₩ 4,448	₩ -	₩ 11,394	₩ 93,054

## Notes to Non-Consolidated Financial Statements

Changes in equity method investments resulting from equity method valuation for the period from July 1, 2008 to December 31, 2008, are summarized as follows:

(in millions of Korean won)

Investees	Beginning Balance	Acquisition Cost	Valuation under Equity Method					Ending Balance
			Gain(Loss) on Valuation of Equity			Accumulated Other Comprehensive Income(loss)		
			Retained Earnings	Method Investments	Capital Surplus		Capital Adjustment	
Kookmin Bank <sup>1,2</sup>	₩ 12,227,020	₩ 500,000	₩ 18,880	₩ 605,507	₩ (1,835)	₩ 1,062,996	₩ 1,094,351	₩ 15,506,919
KB Investment & Securities Co., Ltd.	418,331	-	-	6,361	-	-	(5,425)	419,267
KB Asset Management Co., Ltd.	101,961	-	-	14,504	-	-	(7)	116,458
KB Real Estate Trust Co., Ltd.	107,643	-	-	(10,096)	-	-	(78)	97,469
KB Investment Co., Ltd.	104,741	-	134	859	-	-	(1,946)	103,788
KB Futures Co., Ltd.	35,734	-	-	3,224	-	-	(752)	38,206
KB Credit Information Co., Ltd.	42,721	-	-	1,767	-	-	-	44,488
KB Data Systems Co., Ltd.	16,698	-	-	1,759	-	-	-	18,457
	₩ 13,054,849	₩ 500,000	₩ 19,014	₩ 623,885	₩ (1,835)	₩ 1,062,996	₩ 1,086,143	₩ 16,345,052

<sup>1</sup> The beginning and ending balances of the investment in Kookmin Bank are net of ₩ 4,208,098 million and ₩ 2,710,349 million, respectively. These amounts represent the Company's issued shares owned by Kookmin Bank and are accounted as capital adjustment in the Company's balance sheet.

<sup>2</sup> As Kookmin Bank elected to revalue its land, it recorded the land's revalued amount as of December 31, 2008. Due to this accounting change, a gain on revaluation of ₩ 893,856 million, net of tax, was credited to accumulated other comprehensive income, while a loss on revaluation of ₩ 40,344 million, net of tax, was included in gain (loss) on valuation of equity method investments.

The subsidiaries reviewed and audited financial statements as of December 31, 2008, were used for the application of the equity method. Financial information of above subsidiaries is disclosed in Notes 20 and 21.

The Company was established on September 29, 2008, through stock transfer between former shareholders and its subsidiaries. Its current accounting period ended on December 31, 2008. The Company's acquisition cost of investments was determined as the net asset amount of investees as of June 30, 2008. Therefore, the Company applied the equity method to reflect the changes in investees' net assets from July 1, 2008 to December 31, 2008, for the period ended December 31, 2008.



Unrealized gain and loss as of December 31, 2008, are listed below:

	(in millions of Korean won)	
	Unrealized Loss	Unrealized Gain
Kookmin Bank	₩ 281	₩ -
KB Investment & Securities Co., Ltd.	408	-
KB Credit Information Co., Ltd.	20	-
KB Data Systems Co., Ltd.	-	(8,082)
	₩ 709	₩ (8,082)

### 5. Loans Receivable

Loans receivable as of December 31, 2008, are as follows:

	(in millions of Korean won)		
	Debtors	Interest Rate(%)	Ending Balance
General loans in won	KB Investment & Securities Co., Ltd	6.64%	₩ 100,000
Subordinated loans in won	KB Investment & Securities Co., Ltd	8.25%	100,000
			₩ 200,000

The maturities of loans as of December 31, 2008, are as follows:

	(in millions of Korean won)					
	3 Months	4 to 6 Months	7 to 12 Months	1 to 3 Years	Over 3 Years	Total
Loans in won	₩ 100,000	₩ -	₩ -	₩ -	₩ 100,000	₩ 200,000

The provision ratio for loans which are subject to allowance for loan losses is as follows:

	(in millions of Korean won)	
	2008	
Loans subject to provision	₩	200,000
Allowance for loan losses		1,000
Provision ratio(%)		0.50

### 6. Property and Equipment

Changes in property and equipment for the period ended December 31, 2008, are as follows:

	(in millions of Korean won)				
	Beginning Balance	Acquisition	Disposal	Depreciation	Ending Balance
Property and equipment	₩ -	₩ 3,583	₩ -	₩ 369	₩ 3,214

# Notes to Non-Consolidated Financial Statements

## 7. Intangible Assets

Changes in intangible assets for the period ended December 31, 2008, are as follows:

(in millions of Korean won)

	Beginning Balance	Acquisition	Disposal	Amortization	Ending Balance
Software	₩ -	₩ 1,448	₩ -	₩ 60	₩ 1,388
Other intangible assets	-	634	-	13	621
	₩ -	₩ 2,082	₩ -	₩ 73	₩ 2,009

## 8. Borrowings

Borrowings as of December 31, 2008, are as follows:

(in millions of Korean won)

	Lender	Date of Borrowing	Maturity Date	Interest Rate(%)	Ending Balance
Borrowings in won	Hana Bank	2008-09-29	2009-09-29	5.95	₩ 10,000
	Woori Bank	2008-11-26	2009-11-17	7.48	20,000
	Woori Bank	2008-12-16	2009-11-17	6.75	100,000
					130,000
Other borrowings	-	2008-12-19	2009-03-19	6.14%	102,000
Total					₩ 232,000

Issued debentures by the Company as of December 31, 2008, are as follows:

(in millions of Korean won)

	Issued Date	Maturity Date	Interest Rate(%)	Ending Balance
Unguaranteed debentures No. 1	2008-12-12	2011-12-12	7.48%	₩ 500,000
Less: Discounts on debentures				(1,428)
				₩ 498,572

The maturities of the borrowings as of December 31, 2008, are as follows:

(in millions of Korean won)

	3 Months	4 to 6 Months	7 to 12 Months	1 to 3 Years	Total
Borrowings in won	₩ -	₩ -	₩ 130,000	₩ -	₩ 130,000
Other borrowings	102,000	-	-	-	102,000
Debentures	-	-	-	500,000	500,000
	₩ 102,000	₩ -	₩ 130,000	₩ 500,000	₩ 732,000

## 9. Accrued Severance Benefits

Changes in accrued severance benefits for the period ended December 31, 2008, are summarized as follows:

	(in millions of Korean won)	
	2008	
Beginning balance	₩	-
Transferred from subsidiaries <sup>1</sup>		2,999
Provision		347
Payment		-
Accrued severance benefits		3,346
Less: Pension plan assets		(2,185)
Ending balance	₩	1,161

<sup>1</sup> Accrued severance benefits of ₩ 2,999 million following regulation on retirement benefit were transferred from subsidiaries where the employees have been previously employed.

As of December 31, 2008, the details of pension plan assets are as follows:

	(in millions of Korean won)	
	2008	
Cash and cash equivalents	₩	438
Time deposits		1,747
Total	₩	2,185

## 10. Capital Stock

Details of capital stock as of December 31, 2008, are as follows:

	2008	
Number of shares authorized		1,000,000,000
Par value per share	₩	5,000
Number of shares issued		356,351,693

## 11. Capital Surplus

The excess value, which is greater than capital reserve, of transferred shares of subsidiaries including treasury shares of Kookmin Bank over the Company's issued capital stock is recorded as changes from valuation of equity method investments under the capital surplus of shareholders' equity.

## 12. Retained Earnings

As required by Article 53 of the Financial Holding Company Act, the Company, each time it declares dividends, is required to appropriate, as a legal reserve, an amount equal to a minimum of 10% of annual net income, until such reserve equals its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit.

# Notes to Non-Consolidated Financial Statements

## 13. Share-Based Payments

Share-based payment plan for directors and employees of the Company for the period ended December 31, 2008, is as follows:

(in number of shares)				
		Grant Date	Maximum Granted Shares	Grant Condition
Stock Grant	1st Series	2008-09-29	160,006	Services fulfillment <sup>1</sup> Achievements of targets <sup>2</sup>

There has been no change in number of maximum granted shares as of December 31, 2008.

<sup>1</sup> In order to exercise their stock grants, at least three years of service as vesting period are required for executive directors, while the fulfillment of their remaining contracted service period is required for non-executive directors.

<sup>2</sup> Thirty percent of the shares to be granted will be based on the achievement of the targeted asset incremental ratio, while another 30% will be based on the targeted return on asset ratio. The remaining 40 percent will be based on the achievement of the targeted relative TSR ratio. However, some of total granted shares will be compensated regardless of the above achievements of the targets as long as service requirement is fulfilled.

The maximum number of total granted shares is decided on the contract date, and the number of shares to be compensated is determined by the achievements of the targets. The Company may settle the payment by cash or equity.

The value of stock grant is measured at fair value as of December 31, 2008. The amount for each stock grant is ₩33,200.

Accrued expense for the period ended December 31, 2008, due to share-based payment plan is ₩ 463 million, and the cost is recorded as salary expense under selling and administrative expenses.

## 14. Income Tax

Income tax expense for the period ended December 31, 2008, consists of the following:

(in millions of Korean won)	
	2008
Current income taxes	₩ -
Changes in deferred income taxes due to temporary differences <sup>1</sup>	4,649
Income tax liabilities directly charged to the shareholders' equity <sup>2</sup>	(4,482)
Income tax expense	₩ 167

<sup>1</sup> Changes in deferred income taxes due to temporary differences for the period ended December 31, 2008, are as follows:

(in millions of Korean won)	
	2008
Beginning deferred income tax assets (liabilities)	₩ -
Current deferred income tax assets (liabilities)	(4,649)
Changes in deferred income tax due to temporary differences	₩ 4,649

<sup>2</sup> Income tax liabilities directly charged to the shareholders' equity as of December 31, 2008, are as follows:

		(in millions of Korean won)	
		2008	
Additional paid-in-capital	₩		(5,842)
Loss on valuation of equity method investments			1,360
<b>Total</b>	<b>₩</b>		<b>(4,482)</b>

The reconciliation between income tax expense and income before income tax is as follows:

		(in millions of Korean won)	
		2008	
Income before income tax	₩		612,094
Calculated tax amount of tax rate (27.5%)	₩		168,326
<b>Adjustments</b>			
Exclusion of deferred income tax from equity method investments			(171,360)
Exclusion of deferred income tax from net operating loss carry forwards			3,153
Non deductible expense			90
The effect of changes in tax rate			(42)
Income tax expense	₩		167
Effective tax rate (%)			0.03%

Changes in accumulated temporary differences and net operating loss for the period ended December 31, 2008, are as follows:

		(in millions of Korean won)			
		Temporary Difference			
		Beginning	Increase	Decrease	Ending
Equity method investments	₩	-	₩ 1,391,338	₩ -	₩ 1,391,338
Net operating loss carryforwards		-	11,466	-	11,466
	<b>₩</b>	<b>-</b>	<b>₩ 1,402,804</b>	<b>₩ -</b>	<b>₩ 1,402,804</b>

Changes in deferred income tax assets (liabilities) for the period ended December 31, 2008, are as follows:

		(in millions of Korean won)				
		Deferred Income Tax Asset (Liability)				
		Beginning	Increase (Decrease)	Ending <sup>1</sup>	Non-Deductible Amount	Ending Balance After A djustment
Equity method investments <sup>2,3</sup>	₩	-	₩ 306,094	₩ 306,094	₩ (310,743)	₩ (4,649)
Net operating loss carryforwards <sup>4</sup>		-	2,523	2,523	(2,523)	-
	<b>₩</b>	<b>-</b>	<b>₩ 308,617</b>	<b>₩ 308,617</b>	<b>₩ (313,266)</b>	<b>₩ (4,649)</b>

<sup>1</sup> Deferred income tax assets (liabilities) are calculated by multiplying income tax rate of 22% to all temporary differences for the current period.

<sup>2</sup> Deferred income tax assets of ₩316,652 million, arising from deductible temporary differences, which were derived from valuation of equity method investments, of ₩ 1,439,328 million, do not reverse unless equity method investments are liquidated or sold. Therefore, these were not recognized as deferred income tax assets as of December 31, 2008.

<sup>3</sup> Deferred income tax liabilities of ₩5,908 million, arising from taxable temporary difference, which were derived from valuation of equity method investments, of ₩ 26,857 million, will be reversed by dividend income. However, since the dividends from subsidiaries are not taxable, they were not recognized as deferred income tax liabilities.

<sup>4</sup> Net operating losses carry forwards of ₩ 11,466 million were not expected to be recovered in the future. Therefore, they were not recognized as deferred income tax assets.

# Notes to Non-Consolidated Financial Statements

The income tax effect for accumulated temporary differences for the period ended December 31, 2008, is computed with expected future tax rate, the year when current portion of temporary difference is expected to reverse. Therefore, the realizable value for 2009 and thereafter are computed with 24.2% and 22%, respectively. Consequently, deferred income tax liability is reduced by ₩1,162 million as a result of the change in the previous tax rate of 27.5%.

## 15. Earnings Per Share

Basic earnings per share for the period ended December 31, 2008, is calculated as follows:

	(in Korean won and in number of shares)	
	2008	
Net income	₩	611,926,551,438
Weighted-average number of common shares outstanding <sup>1</sup>		286,715,961
Basic earnings per share	₩	2,134

<sup>1</sup> The weighted average number of common shares outstanding is computed as follows:

	(in number of shares)	
	2008	
Beginning		356,351,693
Acquisition of treasury stock <sup>1</sup>		(73,607,601)
Sale of treasury stock <sup>1</sup>		3,971,869
Weighted average number of common shares outstanding		286,715,961

<sup>1</sup> Basic earnings per share for the period ended December 31, 2008, equals to diluted earnings per share because there has been no dilution in the weighted average number of common stock outstanding.

Common stocks, which were not included for the computation of diluted earnings per share for the period ended December 31, 2008, due to the effect of anti-dilutive, may result dilution of earnings per share in the future.

The number of potential common stock which may result in dilution of earnings per share follows:

	(in number of shares)	
	Number of Shares to Be Issued <sup>1</sup>	
Stock Grant		411,819

<sup>1</sup> The number of granted shares for employees and directors of Kookmin Bank, one of the subsidiaries of the Company, is included in total number of stock grants.



## 16. Value Added Information

Information for calculating value added for the period ended December 31, 2008 is as follows:

	(in millions of Korean won)	
	2008	
Personal expenses	₩	3,093
Severance benefits		347
Welfare expenses		446
Rental expenses		234
Depreciation		369
Amortization		73
Tax and dues		28
	₩	4,590

## 17. Comprehensive Income

Comprehensive income for the period ended December 31, 2008, consists of:

	(in millions of Korean won)	
	2008	
Net income	₩	611,927
Net accumulated comprehensive losses of equity method investments (net of tax effect ₩ 1,360 million)		1,087,503
Comprehensive income	₩	1,699,430

## 18. Supplemental Cash Flows Information

Restricted due from banks are not accounted for in statement of cash flows.

Significant transactions not involving cash inflows or outflows for the period ended December 31, 2008, are as follows:

	(in millions of Korean won)	
	2008	
Contribution from stock transfer	₩	13,054,849
Changes in comprehensive income due to valuation of equity method investments		1,087,503
Changes in capital adjustment due to valuation of equity method investments		1,062,996
Changes in retained earnings due to equity method investments		19,014

# Notes to Non-Consolidated Financial Statements

## 19. Related Party Transactions

The details of the Company's ownership in its subsidiaries and second tier subsidiaries and equity method investments are summarized in Notes 1 and 4, respectively.

As of December 31, 2008, the ownerships in associates over which the Company has significant influence through its subsidiaries are as follows:

Investors	Investees	Number of Shares	Ownership (%)
Kookmin Bank	KLB Securities Co., Ltd. <sup>1</sup>	4,854,713	36.41
	Jooeun Industrial Co., Ltd. <sup>1</sup>	1,999,910	99.99
	Balhae Infrastructure Fund	10,310,869	12.61
	Korea Credit Bureau Co., Ltd.	180,000	9.00
	Kookmin Bank Singapore Ltd. <sup>1</sup>	30,000,000	100.00
	Kookmin Finance Asia Ltd. (HK) <sup>1</sup>	700,000	100.00
	JSC Bank CenterCredit	44,136,676	30.55
	KB06-1 Venture Partnership Fund	200	50.00
	KB08-1 Venture Partnership Fund	100	66.67
	KB06-1 Venture Partnership Fund	100	25.00
	KB08-1 Venture Partnership Fund	50	33.33
	Kookmin Investment Partnership No.16 <sup>1</sup>	184	20.00
	Kookmin China Fund No.1 <sup>1</sup>	13	50.00
	KTTC-Kookmin Venture Fund No.1 <sup>1</sup>	200	20.00
	KB Investment	KB 03-1 Venture Fund <sup>1</sup>	125
NPC 05-6 KB Venture Fund		500	20.00
NPC 07-5 KB Venture Fund		500	20.00
KB 03-1 Corporate Restructuring Fund <sup>1</sup>		41	29.00
KB 06-1 Corporate Restructuring Fund		12	5.38
	NPS 06-5 KB Corporate Restructuring Fund	4,750,000,000	13.57

<sup>1</sup> Under liquidation as of December 31, 2008.

Revenues and expenses from significant transactions with the subsidiaries for the period ended December 31, 2008 are as follows:

(in millions of Korean won)

Revenues	Expenses	Accounts			Total
		Interest on Loan	Interest on Due from Banks	Rent	
KB Financial Group Inc.	Kookmin Bank	₩ -	₩ 689	₩ -	₩ 689
	KB Investment & Securities Co., Ltd.	598	-	-	598
Kookmin Bank	KB Financial Group Inc.	-	-	137	137
		₩ 598	₩ 689	₩ 137	₩ 1,424

Significant balances with related parties as of December 31, 2008, are as follows:

(in millions of Korean won)

Creditor	Debtor	Accounts			Total
		Loan	Due from Bank	Guarantee Deposit	
KB Financial Group Inc.	Kookmin Bank	₩ -	₩ 1,849	₩ 13,129	₩ 14,978
	KB Investment & Securities Co., Ltd.	200,000	-	-	200,000
		₩ 200,000	₩ 1,849	₩ 13,129	₩ 214,978

Compensation for key management for the period ended December 31, 2008, consists of:

(in millions of Korean won)

	2008
Salaries	₩ 725
Accrued severance benefits	65
Share-based payments <sup>1</sup>	463
Total	₩ 1,253

<sup>1</sup> Details of share-based payments are described in Note 13.

Key management includes non-executive directors, registered directors, and non-registered directors who have the authority for making decisions in the Company's financial planning and management.

## 20. Condensed Financial Information of Subsidiaries

The condensed balance sheets of subsidiaries as of December 31, 2008, are as follows:

(in millions of Korean won)

	Total Assets	Total Liabilities	Shareholders' Equity
Kookmin Bank <sup>1</sup>	₩ 266,460,040	₩ 249,039,742	₩ 17,420,298
KB Investment & Securities Co., Ltd.	2,052,261	1,730,165	322,096
KB Asset Management Co., Ltd.	126,772	10,299	116,473
KB Real Estate Trust Co., Ltd.	221,353	123,884	97,469
KB Investment Co., Ltd.	115,385	11,597	103,788
KB Futures Co., Ltd.	150,142	111,936	38,206
KB Credit Information Co., Ltd.	50,573	6,105	44,468
KB Data Systems Co., Ltd.	46,532	19,993	26,539
	₩ 269,223,058	₩ 251,053,721	₩ 18,169,337

<sup>1</sup> Financial information of Kookmin Bank is based on its consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

The following condensed statements of income of subsidiaries represent the six-month period from July 1, 2008 to December 31, 2008:

(in millions of Korean won)

	Operating Revenue	Operating Expense	Operating Income(loss)	Net Income(loss) Before Income Tax	Net Income (loss)
Kookmin Bank <sup>1</sup>	₩ 29,500,591	₩ 29,388,121	₩ 112,470	₩ 376,676	₩ 225,226
KB Investment & Securities Co., Ltd.	167,575	145,320	22,255	22,138	17,336
KB Asset Management Co., Ltd.	34,660	14,358	20,302	20,133	14,504
KB Real Estate Trust Co., Ltd.	27,991	39,633	(11,642)	(12,356)	(10,096)
KB Investment Co., Ltd.	5,909	5,176	733	912	884
KB Futures Co., Ltd.	14,181	9,483	4,698	4,691	3,224
KB Credit Information Co., Ltd.	26,947	24,263	2,684	2,528	1,783
KB Data Systems Co., Ltd.	101,744	94,194	7,550	6,955	5,078
	₩ 29,879,598	₩ 29,720,548	₩ 159,050	₩ 421,677	₩ 257,939

<sup>1</sup> Financial information of Kookmin Bank is based on its consolidated financial statements.

## 21. Financial and Operating Status of Subsidiaries

Financial status of the Company and each subsidiary as of December 31, 2008, is as follows:

(in millions of Korean won)

	Deposits	Borrowings	Debentures <sup>1</sup>	Total
KB Financial Group Inc.	₩ -	₩ 232,000	₩ 498,572	₩ 730,572
Kookmin Bank <sup>2</sup>	162,248,761	18,695,883	42,610,595	223,555,239
KB Investment & Securities Co., Ltd.	30,743	1,566,372	-	1,597,115
KB Asset Management Co., Ltd.	-	-	-	-
KB Real Estate Trust Co., Ltd.	72	108,071	-	108,143
KB Investment Co., Ltd.	-	10,300	-	10,300
KB Futures Co., Ltd.	106,808	-	-	106,808
KB Credit Information Co., Ltd.	-	-	-	-
KB Data Systems Co., Ltd.	-	-	-	-
	₩ 162,386,384	₩ 20,612,626	₩ 43,109,167	₩ 226,108,177

<sup>1</sup> Net of discounts.

<sup>2</sup> Financial information of Kookmin Bank is based on its consolidated financial statements.

Operating status for each subsidiary as of December 31, 2008, is as follows:

(in millions of Korean won)

	Loans <sup>1</sup>	Securities	Cash and Due from Bank	Total
KB Financial Group Inc.	₩ 199,000	₩ 16,345,052	₩ 1,849	₩ 16,545,901
Kookmin Bank <sup>2</sup>	198,708,628	38,658,004	8,132,181	245,498,813
KB Investment & Securities Co., Ltd.	237,799	1,624,264	75,259	1,937,322
KB Asset Management Co., Ltd.	1,719	3,801	106,836	112,356
KB Real Estate Trust Co., Ltd.	1,498	3,741	378	5,617
KB Investment Co., Ltd.	22,504	84,712	19	107,235
KB Futures Co., Ltd.	-	25,556	119,128	144,684
KB Credit Information Co., Ltd.	-	-	31,973	31,973
KB Data Systems Co., Ltd.	798	-	21,970	22,768
	₩ 199,171,946	₩ 56,745,130	₩ 8,489,593	₩ 264,406,669

<sup>1</sup> Net of allowance for loan losses, discounted present value, and deferred loan gains (losses).

<sup>2</sup> Financial information of Kookmin Bank is based on its consolidated financial statements.

Changes in allowance for loan losses and other assets for each entity for the period ended December 31, 2008, are as follows:

(in millions of Korean won)

	Beginning	Increase (Decrease)	Ending
KB Financial Group Inc.	₩ -	₩ 1,000	₩ 1,000
Kookmin Bank <sup>1</sup>	2,805,991	871,049	3,677,040
KB Investment & Securities Co., Ltd.	2,281	20,697	22,978
KB Asset Management Co., Ltd.	54	30	84
KB Real Estate Trust Co., Ltd.	38,700	27,108	65,808
KB Investment Co., Ltd.	767	(135)	632
KB Futures Co., Ltd.	-	-	-
KB Credit Information Co., Ltd.	51	(14)	37
KB Data Systems Co., Ltd.	120	(14)	106
	₩ 2,847,964	₩ 919,721	₩ 3,767,685

<sup>1</sup> Financial information of Kookmin Bank is based on its consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

## 22. Subsidiaries' Contribution to Gain and Loss

Subsidiaries' contributions to the Company's gain and loss from equity method valuation for the period ended December 31, 2008, are as follows:

	(in millions of Korean won)	
	Amount	Contribution Ratio(%)
Kookmin Bank	₩ 605,507	97.06
KB Investment & Securities Co., Ltd.	6,361	1.02
KB Asset Management Co., Ltd.	14,504	2.32
KB Real Estate Trust Co., Ltd.	(10,096)	(1.62)
KB Investment Co., Ltd.	859	0.14
KB Futures Co., Ltd.	3,224	0.52
KB Credit Information Co., Ltd.	1,767	0.28
KB Data Systems Co., Ltd.	1,759	0.28
	₩ 623,885	100.00

## 23. Insurance

As of December 31, 2008, the Company has financial package insurance policies which include Banker's Blanket Bond, Directors Reparation Liability Insurance, and Professionals Reparation Liability Insurance with Samsung Fire & Marine Insurance Co., Ltd. The insurance coverage is ₩ 87,500 million.

## 24. Commitments

The commitments made with financial institutions on the limit of corporate borrowings and the related amounts already borrowed as of December 31, 2008, are as follows:

	(in millions of Korean won)	
	Limit for Borrowing	Amounts Borrowed
Hana Bank	₩ 50,000	₩ 10,000
Woori Bank	130,000	120,000
	₩ 180,000	₩ 130,000



## 25. Financial Performance for the Three-Month Period

Financial performance for the three-month period ended December 31, 2008, is as follows:

(in millions of Korean won, except earnings per share)

	Quarter Ended December 31, 2008	
Operating revenue	₩	66,415
Operating expense		22,493
Operating income		43,922
Net income		43,878
Earnings per share in won		153

## 26. Approval of Financial Statements

The December 31, 2008, financial statements were approved on February 11, 2009, by the Board of Directors.

# Report of Independent Accountants' Review of Internal Accounting Control System

A member firm of

**PRICEWATERHOUSECOOPERS** 

To the President of  
KB Financial Group Inc.

www.samil.com  
LS Yongsan Tower  
191 Hangangno 2-ga, Yongsan-gu  
Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KB Financial Group Inc. (the "Company") as of December 31, 2008. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2008, the Company's IACS has been designed and is operating effectively as of December 31, 2008, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2008, and we did not review management's assessment of its IACS subsequent to December 31, 2008. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

*Samil PricewaterhouseCoopers*

Samil PricewaterhouseCoopers  
March 9, 2009

# Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Auditor (Audit Committee) of KB Financial Group Inc.

I, as the Internal Accounting Control Officer ("IACO") of KB Financial Group Inc. ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2008.

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

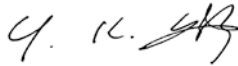
Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS standards.

February 20, 2009

Shin Kap, Internal Accounting Control Officer



Hwang Youngkey, Chief Executive Officer



# Report of Independent Auditors

A member firm of



www.samil.com  
LS Yongsan Tower  
191 Hangangno 2-ga, Yongsan-gu  
Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

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

We have audited the accompanying consolidated balance sheet of KB Financial Group Inc. and subsidiaries (collectively the "Consolidated Company") as of December 31, 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the period from September 29, 2008 to December 31, 2008, expressed in Korean won. These financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Kookmin Bank and certain other consolidated subsidiaries. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for Kookmin Bank and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Company as of December 31, 2008, and the results of its operations, the changes in its shareholders' equity and its cash flows for the period from September 29, 2008 to December 31, 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

As explained in Notes 3 and 9 to the consolidated financial statements, the Consolidated Company revalued its land in accordance with the revised Statement of Korea Financial Accounting Standards No. 5, Property and equipment.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

*Samil PricewaterhouseCoopers*

Seoul, Korea  
March 13, 2009

This report is effective as of March 13, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

# Consolidated Balance Sheet

December 31, 2008

KB Financial Group Inc. and Subsidiaries		(in millions of Korean won)
		2008
<b>Assets</b>		
Cash and due from banks (Notes 4, 20 and 27)	₩	8,316,197
Securities (Notes 5 and 20)		38,985,268
Loans receivable, net (Notes 6, 7, 8 and 20)		198,930,186
Property and equipment, net (Note 9)		3,502,549
Other assets, net (Notes 3, 8, 10, 19 and 22)		17,814,591
Total assets	₩	267,548,791
<b>Liabilities and Shareholders' Equity</b>		
Liabilities		
Deposits (Notes 11 and 20)	₩	162,210,372
Borrowings, net (Notes 12 and 20)		63,495,480
Other liabilities (Notes 13, 14, 15, 16, 18, 19, 20 and 22)		25,780,892
Total liabilities		251,486,744
Shareholders' equity (Note 17)		
Common stock		1,781,758
Capital surplus		15,473,511
Capital adjustment		(3,145,102)
Accumulated other comprehensive income		1,087,503
Retained earnings		630,941
Minority interest		233,436
Total shareholders' equity		16,062,047
Total liabilities and shareholders' equity	₩	267,548,791

The accompanying notes are an integral part of these consolidated financial statements. See Report of Independent Auditors

# Consolidated Statement of Income

December 31, 2008

KB Financial Group Inc. and Subsidiaries

(in millions of Korean won, except per share amounts)

	2008
<b>Operating revenues</b>	
Interest income	
Interest on due from banks	₩ 111,344
Interest on securities	963,220
Interest on loans	7,876,491
Other interest income (Note 7)	27,331
	8,978,386
Gain on valuation and disposal of securities	
Gain on valuation of trading securities	113,913
Gain on disposal of trading securities	106,737
Gain on disposal of available-for-sale securities	60,380
Gain on disposal of held-to-maturity securities	209
	281,239
Gain on valuation and disposal of loans (Note 6)	16,717
Gain on foreign currency transactions	1,468,930
Commission income	751,830
Fees and commissions from trust accounts	70,792
Dividend income	58,905
Insurance revenue	306,838
Other operating income	
Gain on derivatives trading	11,998,947
Gain on valuation of derivatives (Note 19)	5,757,919
Recovery of losses from acceptance and gurantee	121
Recovery of losses from other doubtful accounts	21,596
Income from operating private equity fund	104
Other operating income	16,959
	17,795,646
	29,729,283
<b>Operating expenses</b>	
Interest expense	
Interest on deposits	3,483,450
Interest on borrowing	1,582,833
Other interest expenses	34,525
	5,100,808
Loss on valuation and disposal of securities	
Loss on disposal of trading securities	157,738
Loss on disposal of available-for-sale securities	46,472
Loss on disposal of held-to-maturity securities	43
Impairment loss on available-for-sale securities (Note 5)	67,282
Impairment loss on held-to-maturity securities (Note 5)	27,344
	298,879
Loss on valuation and disposal of loans (Notes 6 and 8)	1,448,983
Loss on foreign currency transactions	1,214,401



(in millions of Korean won, except per share amounts)

	2008
Commission expenses	421,844
Selling and administrative expenses (Notes 9, 10, 13, 18 and 21)	2,064,397
Insurance expense	308,530
Other operating expenses	
Loss on derivatives trading	12,593,167
Loss on valuation of derivatives (Note 19)	4,720,481
Loss on valuation of fair value hedged items (Notes 5, 11, 12, 19)	495,194
Provision for acceptance and gurantee losses	64,523
Provision for other doubtful accounts	71,449
Contribution to fund	176,512
Losses from operating private equity fund	3,236
Other operating expenses	119,578
	18,244,140
	29,101,982
Operating income	627,301
<b>Non-operating income (Notes 5 and 9)</b>	498,756
<b>Non-operating expenses (Notes 5 and 9)</b>	186,649
Income before income taxes	939,408
<b>Income tax expense (Note 22)</b>	329,580
Net income	₩ 609,828
Parent Company interests in net income	₩ 611,927
Minority interests	(2,099)
<b>Per share data (Note 23)</b>	
Basic and diluted earnings per share	₩ 2,134

The accompanying notes are an integral part of these consolidated financial statements. See Report of Independent Auditors

# Consolidated Statement of Changes in Shareholders' Equity

For the period from September 29 to December 31, 2008

KB Financial Group Inc. and Subsidiaries

(in millions of Korean won)

	Capital Stock	Capital Surplus	Capital Adjustment	Accumulated Other Comprehensive Income and Expense	Retained Earnings	Minority Interest	Total
September 29, 2008	₩ 1,781,758	₩15,481,189	₩(4,208,098)	₩ -	₩ -	₩ 50,805	₩ 13,105,654
Net income	-	-	-	-	611,927	(2,099)	609,828
Disposal of treasury stocks owned by subsidiaries	-	-	1,065,414	-	-	-	1,065,414
Purchase of additional subsidiaries	-	-	-	-	-	184,245	184,245
Valuation of available-for-sale securities	-	-	-	193,231	-	29	193,260
Valuation of held-to-maturity securities	-	-	-	27	-	32	59
Changes in equity method investments	-	-	-	(53)	-	-	(53)
Valuation of derivative instruments	-	-	-	442	-	424	866
Valuation of tangible asset accounts	-	-	-	893,856	-	-	893,856
Changes in retained earnings of subsidiaries	-	-	-	-	3,168	-	3,168
Others	-	(7,678)	(2,418)	-	15,846	-	15,846
December 31, 2008	₩ 1,781,758	₩15,473,511	₩(3,145,102)	₩ 1,087,503	₩ 630,941	₩ 233,436	₩ 16,062,047

The accompanying notes are an integral part of these consolidated financial statements. See Report of Independent Auditors

# Consolidated Statement of Cash Flows

For the period from September 29 to December 31, 2008

KB Financial Group Inc. and Subsidiaries	(in millions of Korean won)	
	2008	
<b>Cash flows from operating activities</b>		
Net income	₩	609,828
Adjustments to reconcile net income to net cash used in operating activities		
Impairment loss on available-for-sale securities		67,282
Impairment loss on held-to-maturity securities		27,344
Provision for possible loan losses		1,415,107
Depreciation and amortization		267,076
Provision for severance benefits		95,757
Loss on valuation of fair value hedged items		495,194
Provision for acceptance and guarantee losses		64,523
Provision for other doubtful accounts		71,449
Provision for responsibilities reserve		175,519
Loss on valuation of equity method investments		86,110
Impairment loss on property and equipment		56,062
Gain on valuation of trading securities		(113,913)
Gain on valuation of foreign currency, net		(339,995)
Gain on valuation of derivatives, net		(1,037,438)
Recovery of stock-based payments		(27,291)
Interest income		(36,209)
Recovery of other doubtful accounts		(21,596)
Gain on valuation of equity method investments		(4,159)
Gain on disposal of equity method investments		(430,717)
Others, net		99,586
		909,691
Changes in operating assets and liabilities		
Decrease in trading securities		37,980
Decrease in available-for-sale securities		19,895
Increase in held-to-maturity securities		(519,923)
Increase in loans receivable		(8,821,859)
Increase in accounts receivable		(1,002,934)
Increase in accrued income		(90,375)
Decrease in prepaid expenses		20,162
Decrease in deferred income tax assets		175,623
Decrease in derivative assets		833,516
Decrease in sundry assets		130,938
Increase in accounts payable		929,089
Increase in accrued expenses		327,777
Increase in unearned revenues		34,966
Increase in withholding taxes		51,230
Increase in accounts for agency business		53,203
Decrease in derivative liabilities		(681,041)
Payment of severance benefits		(36,860)
Increase in severance insurance deposits		(86,604)
Decrease in deferred tax liabilities		(169,358)

# Consolidated Statement of Cash Flows

For the period from September 29 to December 31, 2008

	(in millions of Korean won)	
	2008	
Decrease in other provisions for doubtful accounts		(79,070)
Others, net		(612,476)
		(9,486,121)
Net cash used in operating activities		(7,966,602)
<b>Cash flows from investing activities</b>		
Proceeds from disposal of equity method investments	₩	726,985
Proceeds from disposal of property and equipment		2,914
Proceeds from guarantee deposits		42,721
Proceeds from domestic exchanges settlement debits		164,444
Deposits made to restricted due from banks		(1,138,426)
Acquisition of equity method investments		(835,783)
Acquisition of property and equipment		(357,430)
Acquisition of intangible assets		(75,276)
Deposits made for guarantee		(92,226)
Loans granted to trust accounts		(33,864)
		(1,595,941)
<b>Cash flows from financing activities</b>		
Net increase in deposits		2,440,935
Net increase in call money		151,481
Net increase in borrowings		1,406,909
Increase in debentures		10,042,833
Net increase in borrowings from trust accounts		1,306,463
Net increase in securities sold		326,675
Disposal of treasury stock		901,344
Increase in minority interest		12,553
Net decrease in bills sold		(319,679)
Net decrease in bonds sold under repurchase agreements		(898,824)
Decrease in debentures		(2,391,102)
Net decrease in domestic exchanges remittances pending		(2,266)
Net decrease in foreign exchanges remittances pending		(8,931)
Acquisition of treasury stock		(3,410,033)
Payment of stock issuance costs		(2,418)
Net cash provided by financing activities		9,555,940
		171,689
Increase in cash and due from banks due to change in scope of consolidation		165,086
Net increase in cash and cash equivalents		165,086
<b>Cash and cash equivalents (Note 27)</b>		
Beginning of period		3,215,507
End of period	₩	3,380,593

The accompanying notes are an integral part of these consolidated financial statements. See Report of Independent Auditors

# Notes to Consolidated Financial Statements

December 31, 2008

## 1. The Parent Company

KB Financial Group Inc. (the "Parent Company"), in accordance with Financial Holding Companies Act, was established on September 29, 2008, through stock transfer with former shareholders of 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. in order to provide management services and financing to affiliated companies. The headquarters are located at 9-1 Namdaemunro 2-ga, Jung-gu, Seoul. The Parent Company's common stock as of December 31, 2008, is ₩ 1,781,758 million.

The Parent Company is authorized to issue 1,000 million shares. The Parent Company was listed on the Korea Exchange ("KRX") on October 10, 2008, and was also listed on the New York Stock Exchange ("NYSE") for its American Depositary Shares ("ADS") on September 29, 2008.

Major shareholders as of December 31, 2008, are as follows:

Name of Shareholder	Number of Shares Owned	Percentage of Ownership (%)
National Pension Service	23,284,404	6.53
ING BANK N.V.,AMSTERDAM	18,045,437	5.06

## 2. Scope of Consolidation and Equity Method Accounting

Details of subsidiaries are as follows:

### (1) Kookmin Bank

Kookmin Bank (the "Bank") was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing to the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective on January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act. The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the resolution of the Financial Services Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the legal consolidation with Housing and Commercial Bank ("H&CB") on October 31, 2001 and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Kookmin Bank's common stock as of December 31, 2008, is ₩ 2,181,896 million.

The Bank's shares have been listed on the KRX since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were listed on the KRX on November 9, 2001. In addition, the Bank listed its ADS on the NYSE on November 1, 2001, following the consolidation with H&CB. H&CB listed its ADS on the NYSE on October 3, 2000, prior to the business combination. The Bank became a wholly owned subsidiary of the Parent Company through comprehensive stock transfer on September 29, 2008. In addition, the Bank's listed shares and depository shares on the KRX and the NYSE were delisted on October 10, 2008 and September 26, 2008.

The Bank is engaged in the banking, trust, credit card and other relevant businesses according to the provisions of the General Banking Act, Trust Business Act, and Specialized Credit Financial Business Act, respectively. The Bank with headquarters based in Seoul operates through 1,245 domestic branches and offices (excluding 288 automated teller machine stations) and five overseas branches (excluding two subsidiaries and three offices) as of December 31, 2008.

# Notes to Consolidated Financial Statements

## **(2) KB Investment & Securities Co., Ltd.**

KB Investment & Securities Co., Ltd. (the "KB Investment & Securities") was established on August 16, 1995, to engage in security trading, underwriting and brokerage services. On March 11, 2008, the former name of Hannuri Investment & Securities changed to KB Investment & Securities. Its headquarters are located in Seoul. KB Investment & Securities common stock as of December 31, 2008, is ₩ 78,000 million.

## **(3) 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 investment in securities and on July 1997 started to engage in security investment trust operations under the Security Investment Trust Business Act. Its headquarters are located in Seoul. KB Asset Management's common stock as of December 31, 2008, is ₩ 38,338 million.

## **(4) KB 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 service including land trust. Under Section 3 of the Trust Business Act, 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 Jooeun Real Estate Trust Inc. Over 22 land trust operations are in progress, and a number of other trust services such as collateral trusts are already engaged and ready to operate. Its headquarters are located in Seoul. KB Real Estate Trust's common stock as of December 31, 2008, is ₩ 80,000 million.

## **(5) KB Investment Co., Ltd.**

KB Investment Co., Ltd. (the "KB Investment") was established on March 27, 1990, to provide service to small startup companies. Main business operation is to invest in venture companies and small startup companies, and to organize a startup investment cooperative. On April 3, 1990, the company under Section 7 of the Support for Small and Medium Enterprise Establishment Act was listed on 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. On March 2001, the company, under the Industrial Development Act, was selected for Corporate Restructuring Company by the Ministry of Knowledge Economy. Its headquarters are located in Seoul. KB Investment's common stock as of December 31, 2008, is ₩ 44,759 million.

## **(6) KB Futures Co., Ltd.**

KB Futures Co., Ltd. (the "KB Futures") was established on March 1997 to engage in futures trading, trust, intermediation, or brokerage services. The company became a member of the KRX on January 8, 1999. Its headquarters are located in Seoul. KB Futures' common stock as of December 31, 2008, is ₩ 20,000 million.

## **(7) 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 service and credit research service. 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 common stock as of December 31, 2008, is ₩ 6,262 million.

## **(8) 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 service. Its headquarters are located in Seoul. KB Data Systems' common stock as of December 31, 2008, is ₩ 8,000 million.

**(9) 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. 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 common stock as of December 31, 2008, is ₩ 156,000 million.

**(10) 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 derivative. 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 paid in capital as of December 31, 2008, is GBP 20 million.

**(11) 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 paid in capital as of December 31, 2008, is USD 20 million.

**(12) National Pension Service KBIC Private Equity Fund No.1**

National Pension Service KBIC Private Equity Fund No. 1 (the "NPS-KBIC-PEF No.1"), in accordance with Article (2)4-2 of Indirect Investment Asset Management Business Act, was established in August 4, 2008. NPS-KBIC-PEF No. 1 invests its capital to improve business structure and ultimately to maximize the value of its investees. Subsequently, the increased value will be distributed back to its investors. Its headquarters are located in Seoul. NPS-KBIC-PEF No.1's paid in capital as of December 31, 2008, is ₩ 176,200 million.

The Parent Company's percentage of ownership in its subsidiaries as of December 31, 2008, is as follows:

Investors	Investees	Year End	Number of Shares	Ownership (%)
KB Financial Group Inc.	Kookmin Bank	December 31	436,379,116	100.00
	KB Investment & Securities Co., Ltd.	March 31	15,600,000	100.00
	KB Asset Management Co., Ltd.	March 31	7,667,550	100.00
	KB Real Estate Trust Co., Ltd.	March 31	16,000,000	100.00
	KB Investment Co., Ltd.	December 31	8,951,797	100.00
	KB Futures Co., Ltd.	March 31	4,000,000	100.00
	KB Credit Information Co., Ltd.	December 31	1,252,400	100.00
	KB Data Systems Co., Ltd.	December 31	800,000	100.00
Kookmin Bank	KB Financial Group Inc.	December 31	47,407,671	13.30
	KB Life Insurance Co., Ltd.	March 31	15,912,000	51.00
	KookminBank Int'l Ltd.(London)	December 31	20,000,000	100.00
Kookmin Bank	KookminBank HongKong Ltd.	December 31	2,000,000	100.00
Kookmin Bank	NPS-KBIC Private Equity Fund No.1	December 31	4,510,720,000	2.56

Certain trust accounts whose principal or fixed rate of return is guaranteed by Kookmin Bank are included in the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission in the Republic of Korea. The consolidated and non-consolidated trust accounts as of December 31, 2008, are as follows:



# Notes to Consolidated Financial Statements

(in millions of Korean won)

	Total Assets	Operating Revenues
Consolidated	₩ 3,514,984	₩ 112,910
Non consolidated	9,870,414	244,513
	₩ 13,385,398	₩ 357,423

The condensed financial information of subsidiaries as of and for the year ended December 31, 2008, follows:

(in millions of Korean won)

	Total Assets	Common Stock	Shareholders' Equity	Operating Revenues <sup>1</sup>	Net Income (Loss) <sup>1</sup>
Kookmin Bank	₩262,093,177	₩2,181,896	₩17,314,094	₩29,067,498	₩234,931
KB Investment & Securities Co., Ltd.	2,052,261	78,000	322,096	167,575	17,336
KB Asset Management Co., Ltd.	126,772	38,338	116,473	34,660	14,504
KB Real Estate Trust Co., Ltd.	221,353	80,000	97,469	27,991	(10,096)
KB Investment Co., Ltd.	115,385	44,759	103,788	5,909	884
KB Futures Co., Ltd.	150,142	20,000	38,206	14,181	3,224
KB Credit Information Co., Ltd.	50,573	6,262	44,468	26,947	1,783
KB Data Systems Co., Ltd.	46,532	8,000	26,539	101,744	5,078
KB Life Insurance Co., Ltd.	1,769,349	156,000	126,539	349,925	(3,759)
KookminBank Int'l Ltd.(London)	582,111	36,353	53,809	14,930	1,768
KookminBank HongKong Ltd.	548,032	25,150	92,206	24,500	(691)
NPS-KBIC Private Equity Fund No.1	176,030	176,200	175,936	39	(264)

<sup>1</sup> Operating results are based on the management for the six month period ended December 31, 2008.

The details of equity method investees as of December 31, 2008, are as follows:

(In number of shares)

	Investees	Year End	Number of Shares	Ownership[%]
Kookmin Bank	KLB Securities Co., Ltd. <sup>1</sup>	December 31	4,854,713	36.41
	Joeeun Industrial Co., Ltd. <sup>1</sup>	December 31	1,999,910	99.99
	Balhae Infrastructure Fund <sup>2</sup>	December 31 June 30	10,310,869	12.61
	Korea Credit Bureau Co., Ltd. <sup>3</sup>	December 31	180,000	9.00
	KookminBank Singapore Ltd. <sup>1</sup>	December 31	30,000,000	100.00
	Kookmin Finance Asia Ltd.(HK) <sup>1</sup>	December 31	700,000	100.00
	JSC Bank CenterCredit	December 31	44,136,676	30.55
	KB06-1 Venture Investment Partnership	December 31	200	50.00
KB Investment & Securities Co., Ltd	KB08-1 Venture Investment Partnership	December 31	100	66.67
	KB Investment&Securities Hong Kong Limited	March 31	999,999	99.99
	KB06-1 Venture Investment Partnership	December 31	100	25.00
	KB08-1 Venture Investment Partnership	December 31	50	33.33
KB Investment Co., Ltd.	Kookmin Investment Partnership No.16 <sup>1</sup>	December 31	184	20.00
	Kookmin China Fund No.1 <sup>1</sup>	December 31	13	50.00
	KTTC Kookmin Venture Fund No.1 <sup>1</sup>	December 31	200	20.00
	KB03-1 Venture Investment Fund <sup>1</sup>	December 31	125	16.67
	NPC05-6 KB Venture Fund	December 31	500	20.00

	In number of shares	Year End	Number of Shares	Ownership(%)
	NPC07-5 KB Venture Fund	December 31	500	20.00
KB Investment	KB03-1 Corporate Restructuring Fund <sup>1</sup>	December 31	41	29.00
Co., Ltd.	KB06-1 Corporate Restructuring Fund <sup>4</sup>	December 31	12	5.38
	NPS06-5KB Corporate Restructuring Fund <sup>4</sup>	December 31	4,750,000,000	13.57

<sup>1</sup> Under liquidation.

<sup>2</sup> The Bank may exercise its voting rights through its seat in the board or at an equivalent decision-making body of the investee.

<sup>3</sup> The Bank has significant influence in electing a board member who may participate in the decision-making process relating to the financial and business policies of the investee.

<sup>4</sup> KB Investment Co., Ltd. has a significant influence in the decision-making process relating to the financial and business policies of the investee.

### 3. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Statement of Korea Financial Accounting Standards ("SKFAS") No. 25.

The significant accounting policies used in the preparation of consolidated financial statements are as follows:

#### Elimination of Investments and Equity Accounts of Subsidiaries

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Parent Company obtained control over the subsidiaries.

The Parent Company was established on September 29, 2008, through a stock transfer between former shareholders and its subsidiaries. Its current accounting period ended on December 31, 2008. The Parent Company's acquisition cost of investments was determined as the net asset amount of investees as of June 30, 2008. Therefore, the consolidated statement of income represents operations from July 1, 2008 to December 31, 2008.

#### Amortization of Goodwill or Negative Goodwill

The differences between the amounts of investment and the equity accounts of subsidiaries are recorded as goodwill or negative goodwill, which is amortized or reversed using the straight-line method over 20 years, the expected period of future benefit. If additional shares are purchased after acquiring control, the difference between the additional acquisition cost and the portion of net assets acquired is credited or charged to capital surplus. Differences between the carrying amount of investments for subsidiaries and the acquisition cost due to the subsidiaries' paid-in capital increase, stock dividends and issue of new shares without consideration are recorded as increase(decrease) in consolidated capital surplus or consolidated retained earnings.

#### Inter-company Transactions

All inter-company transactions are eliminated in the consolidated financial statements.

#### Balance Sheet Date for Consolidated Financial Statements

The balance sheet date for the consolidated financial statements is the closing date of the Parent Company. The accounts of consolidated subsidiaries whose fiscal year end is different from that of the Parent Company have been adjusted to reflect balances as of the closing date.

#### Special Reserve in Trust Accounts

A special reserve provided for possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and/or annual repayment of the principal is included under retained earnings in the consolidated financial statements.

# Notes to Consolidated Financial Statements

## **Minority Interests**

Non-controlling, outside ownership interests in a subsidiary's shareholders' equity are presented as minority interests.

## **Accounting Policies of the Parent Company and Subsidiaries (collectively the "Consolidated Company")**

The Consolidated Company adopted SKFAS No. 1 through No. 24, except No. 14, in the preparation of its consolidated financial statements as of and for the period ended December 31, 2008.

The significant accounting policies of the Consolidated Company are as follows:

## **Interest Income**

The Consolidated Company applies the accrual basis in recognizing interest income related to due from banks, loans receivable and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans receivable secured by financial institutions or collateralized by bank deposits. When a loan is placed on non-accrual status, previously accrued interest is generally reversed and deducted from current interest income; and future interest income is recognized on cash basis in accordance with the banking industry accounting standards. As of December 31, 2008, the principal amount of loans receivable and securities, whose accrued interest income was not recorded in the accompanying consolidated financial statements based on the above criteria, amounted to ₩ 547,269 million, and the related loans receivable and securities total ₩ 6,706,328 million.

## **Classification of Securities**

At acquisition, the Consolidated Company classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and equity method investment, depending on marketability, purpose of acquisition and ability to hold. Securities, which are bought and held for the purpose of selling them in the near term and are actively traded, are classified as trading securities. Securities with fixed and determinable payments and fixed maturity that the Consolidated Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities which enable the Consolidated Company to exert significant influence over investees are recorded as equity method investments. Securities not classified above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Consolidated Company change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. If the Consolidated Company sells held-to-maturity securities or exercises early redemption right of securities to issuer in the current year or during the preceding two years, and if it consequently reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities unless the remaining term of the securities is short and that they can be sold when the risk of value fluctuation arising from changes in the interest rate is not material. On the other hand, trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability.

## **Valuation of Trading Securities**

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the moving average method, while the specified identification method is used for debt securities. When the face value of trading debt securities differs from their acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After the initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

## **Valuation of Available-for-sale Securities**

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specified identification method for debt securities). The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt securities. After initial recognition, available-for-sale securities are

stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the realizable value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to realizable value and the resulting valuation loss is charged to current operations. The net asset fair value of non-marketable equity securities is stated at acquisition cost. In addition, any remaining unrealized losses or gains from the valuation of securities which were accounted under other comprehensive income or loss will be eliminated and recorded as impairment loss in current operations.

#### **Valuation of Held-to-maturity Securities**

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

#### **Valuation of Equity Method Investments**

Investees over which the Consolidated Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

When the book value of equity method investments is less than zero due to the cumulative losses of the investees, the Consolidated Company discontinues the application of the equity method and do not provide for additional losses. If the investee subsequently reports net income, the Consolidated Company resumes the application of the equity method only after its share of that net income equals the share of net losses not recognized during the period when the equity method was suspended.

#### **Reversal of Impairment Loss on Available-for-sale Securities and Held-to-maturity Securities**

If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current operations up to the amount of the previously recognized impairment loss as reversal of impairment loss on available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities.

However, if the increases in the fair value of the impaired securities are not considered as recovery from impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

When the recoverable value of held-to-maturity securities subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

#### **Reclassification of Securities**

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date, and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities,

# Notes to Consolidated Financial Statements

gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continues to be included in accumulated other comprehensive income (loss) and is amortized using the effective interest rate method. The amortized amount is charged to interest income or expense until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

## **Transfer of Securities**

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in the accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing the control of the securities, the transaction is recorded as a secured borrowing transaction.

## **Allowance for Possible Losses on Credits**

In accordance with SKFAS and supervisory regulations per different industry, the Consolidated Company provides an allowance for possible losses on credit. Allowances are calculated based on the estimates made through a reasonable and objective method.

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Financial Supervisory Commission (FSC) requires Kookmin Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires Kookmin Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages as described below.

As required by the Supervisory Regulation, Kookmin Bank classifies corporate credits (loans receivable, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). However, credits to small companies and to households are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. Kookmin Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or collateralized by bank deposits, real estate or other assets may be classified differently based on the guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on Kookmin Bank's corporate credit evaluation model, credits to a borrower are classified into 17 grades from AAA to D (AAA, AA+, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC, CC, C and D). Credits of grades of AAA to B are classified as normal, credits of grade B- to CCC as precautionary, credits of grade CC as substandard, credits of grade C as doubtful and credits of grade D as estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations. An allowance is then calculated on the category balances using the prescribed percentages of 0.85 (0.9 percent for loans receivable to economy-sensitive industries) ~ 6.9 percent for normal, 7.0 ~ 19.9 percent for precautionary, 20 ~ 49.9 percent for substandard, 50 ~ 99.9 percent for doubtful and 100 percent for estimated loss. However, Kookmin Bank does not provide allowances for call loans, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are calculated on the category balances using the prescribed percentages of 1.0 ~ 9.9 percent and 1.5 ~ 14.9 percent for normal, 10 ~ 19.9 percent and 15 ~ 19.9 percent for precautionary, 20 ~ 54.9 and 20 ~ 59.9 percent for substandard, 55 ~ 99.9 percent and 60 ~ 99.9 percent for doubtful, and 100 percent for estimated loss.

Pursuant to the Supervisory Regulation of Banking Business, Kookmin Bank provides allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and notes endorsed based on the credit classification, minimum rate of loss provision prescribed by the Financial Supervisory Service and the cash conversion factor. In addition, Kookmin Bank provides other allowances for the unused credit limit of credit card and unused credit line of consumer and corporate loans based on the cash conversion factor and minimum rate of loss provision prescribed by the Financial Supervisory Service.

In addition, when an allowance for possible loan losses required by the Supervisory Regulation is less than the amount calculated based on the historical loss rate, which is estimated through objective and reasonable method in accordance with the accounting principle in the Republic of Korea, the historical loss rate is reflected in the provision for possible loan losses.

The method and data used for determining the allowances for loan losses based on historical loss rate by Kookmin Bank's lending portfolios are determined as follows:

Lending Portfolios	Methodology	Period of Historical	Period of
		Loss Rate	Recovery Ratio
Impaired corporate loans	DCF & Migration	N/A	N/A
Non-impaired corporate loans	Migration Analysis	1 year	5 years
Consumer loans	Migration Analysis	1 year	5 years
Credit card loans	Roll-rate Analysis	1 year	5 years

Based on the loan portfolios' nature, lending period, recovery period and other economic factors, the Consolidated Company determines the appropriate data period to be used in assessing its historical loss rate and recovery ratio.

#### **Restructuring of Loans**

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Consolidated Company's loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received is less than the book value of the loan (book value before allowances), the Consolidated Company first offsets the book value against allowances for loan losses and then recognizes provisions for loan losses. Impairment losses for loans receivable that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans receivable are originated and the book value before allowances for loan losses. If the amount of allowances already established is less than the impairment losses, the Consolidated Company establishes additional allowances for the difference. Otherwise, the Consolidated Company reverses the allowances for loan losses.

#### **Deferred Loan Origination Fees and Costs**

The Consolidated Company defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

#### **Valuation of Receivables and Payables at Present Value**

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

# Notes to Consolidated Financial Statements

## Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Consolidated Company purchases or sells securities under such agreements.

## Property and Equipment

Property and Equipment are recorded at acquisition cost, production cost including incidental expenses or revalued amount. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to assets. If the asset was purchased at discount, the historical value of the asset will be recorded at net of discount amount.

Property and equipment are recorded as net of accumulated depreciation and impairment loss. Depreciation is computed based on the estimated useful lives of the assets and the depreciation methods as follows:

Property and Equipment	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line	34-40 years
Leasehold improvements	Declining balance	3-5 years
Equipment and vehicles	Straight-line, Declining balance	3-20 years

The Consolidated Company accounts for lease transactions as either operating lease or capital lease, depending on the terms of the lease agreement. Kookmin Bank accounts for the lease contracts as capital lease when the risks and rewards of the leased assets are mostly transferred to the Consolidated Company. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership. Generally, the financial leases are the leases that, before or at the expiration date, the ownership of leased asset will be transferred to the Consolidated Company; the Consolidated Company has the bargain purchase option at the inception and it is certain that the Consolidated Company will exercise its bargain purchase option; the lease period is more than 75 percent of economic life of the leased assets; at the inception, the present value of minimum lease payments discounted at the imputed interest rate is more than 90 percent of the fair value of the leased assets, or the leased assets are not commonly usable.

As the Consolidated Company elected to revalue its land by following SKFAS No. 5, it recorded the land's revalued amount as of December 31, 2008. Due to this accounting change, a gain on revaluation, net of tax, was credited to accumulated other comprehensive income, while a loss on revaluation, net of tax, first net against other comprehensive income and remaining amount included in current operations.

## Intangible Assets

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized over the estimated economic useful lives of the related assets as follows:

Intangible Assets	Amortization Method	Estimated Useful life
Goodwill	Straight-line	5-9 years
Trademarks	Straight-line	5-20 years
Others	Straight-line	3-30 years

The Consolidated Company recorded goodwill as a result of the merger between Kookmin Bank and H&CB and the acquisition of the shares of KB Investment & Securities Co., Ltd. as the cost of the merger and acquisition exceeded the fair value of the net assets acquired. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probable, are capitalized as development costs. The Consolidated Company estimates the useful lives of endowment assets that are beneficial upon usage based on the term of the contract and are classified under other intangible assets.



The Consolidated Company assesses the potential impairment of intangible asset when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the intangible assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired intangible assets is recorded in current operations up to the cost of the intangible assets before impairment, net of accumulated depreciation, when the estimated recoverable value of the assets exceeds the carrying value after impairment.

#### **Valuation Allowance for Non-Business Use Property**

Non-business use property included in other assets is recorded when the Consolidated Company acquires a collateral by foreclosure on the mortgage for loans receivable. If the latest auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations.

#### **Impairment of Assets**

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment.

#### **Securities Sold**

In relation to the lending and borrowing of securities, borrowed securities are recognized only in the Consolidated Company's memorandum accounts. When those securities are sold, the Consolidated Company recognizes corresponding securities as securities sold. The changes in fair value of securities sold are recorded as gain or loss on valuation of securities sold. The differences between book value and repurchase price of securities sold are accounted as gain or loss from disposal of securities sold.

#### **Amortization of Discounts (Premiums) on Debentures**

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense on the debentures.

#### **Contingent Liabilities**

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Consolidated Company is recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation. In addition, as some or all expenditures required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as separate assets in the balance sheet and related income may be offset against expense in the income statement.

# Notes to Consolidated Financial Statements

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow or inflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability in case of an outflow, or the contingent asset in case of an inflow, is made in the notes to the financial statements.

## **Accrued Severance Benefits**

Employees, directors and temporary employees with at least one year of service as of December 31, 2008, are entitled to receive a lump-sum payment upon termination of their employment with the Consolidated Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to terminate their employment are included in other liabilities.

The Consolidated Company, as of December 31, 2008, operates a retirement insurance plan, a defined benefit, and defined contribution pension plan for its employees and directors. For the employees and directors who are still in the employ of the Consolidated Company as of balance sheet date, and who are qualified under the defined benefit pension plan based on their length of service, accrued severance benefits are recognized as of balance sheet date representing the lump-sum payment for the benefits they elect to receive upon termination of their employment with the Consolidated Company.

## **Accounting for Derivative Instruments**

The Consolidated Company accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted as fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

## **Accounting for Share-based Payments**

The terms of the arrangement for share-based payment transactions provide the Consolidated Company with a choice of whether the transaction is settled in cash or by issuing equity instruments. In accordance with the resolution of the Board of Directors on August 23, 2005, if the payment will be settled in cash, the compensation cost is recorded in other liabilities as accrued expense. The compensation cost of stock options granted before and after the effective date of the Statements of Korea Accounting Standards No. 22, Share-based Payments, was measured using the intrinsic value method in accordance with the Interpretations on Financial Accounting Standards 39-35, Accounting for Stock Options, and the fair value method.

### **National Housing Fund**

The Consolidated Company, as designated by the Korean government under the Housing Law (former Housing Construction Promotion Law), manages the sources and uses of funds of the National Housing Fund (the "NHF") and record the related NHF account in other liabilities. In addition, the Consolidated Company pays interest to the NHF, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate. With the termination of the NHF designation as of March 31, 2008, the Consolidated Company is not expected to manage the new operations related to the NHF except for the operations of the existing funds.

### **Income Tax Expense**

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

### **Accounting for Foreign Currency Transactions and Translation**

The Consolidated Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the basic rate of exchange on the transaction date. The Korean won equivalent of assets and liabilities denominated in foreign currencies are translated in these consolidated financial statements based on the basic rate (₩ 1,257.50 to USD 1.00 on December 31, 2008) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. dollars at the balance sheet date. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the foreign exchange rate at balance sheet date.

### **Summary of Accounting Policies for the Consolidated Company's Trust Accounts**

The significant accounting policies on the trust account which guarantee principal amount are as follows:

#### **Valuation of Debt Securities**

Debt securities included in performance-based Trust Accounts are generally recorded at acquisition costs, which include additional costs and deduct accrued interest income for the period before acquisition, and are classified into five categories to provide allowance for possible credit losses in accordance with the credit rates of bonds issued by each company. Debt securities included in base price-based Trust Accounts are estimated by applying the average of base prices per bond closing on recent trading day announced by Korea Bond Pricing Co., Ltd. and KIS Pricing, Inc.

#### **Allowance for Possible Credit Losses**

The trust accounts provide allowance for possible credit losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines if the amounts are larger than allowances for possible credit losses based on historical loss rate of the trust accounts' lending portfolios. As required by Financial Supervisory Service Guidelines, the trust accounts determines the credit risk classification of corporate loans using a certain scale based on the Trust Accounts' internal credit rating system, the Forward Looking Criteria (FLC), and other factors such as days in arrears, insolvency and result of financial transactions. Allowances are determined by applying the rates of each credit risk classification. The FLC credit rating criteria are divided into 17 categories (AAA, AA+, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC, CC, C and D) and credit risk classification are as follows.

# Notes to Consolidated Financial Statements

	Credit Ratings
Normal	B (greater or equal)
Precautionary	B- or CCC
Substandard	CC
Doubtful	C
Estimated loss	D

However, the trust accounts classify corporate loans and consumer loans by considering the recoverable amounts of loans including delinquencies and bankruptcies. The rates used for determining the allowances for losses from corporate loans and consumer loans are as follows:

	Consumer Loans (%)	Corporate Loans (%)
Normal	1.00	0.85 <sup>1</sup>
Precautionary	10.00	7.00
Substandard	20.00	20.00
Doubtful	55.00	50.00
Estimated loss	100.00	100.00

<sup>1</sup> 0.90 percent for loans to economy-sensitive industries.

Also, the trust accounts provide additional allowance for relatively high-risk borrowings based on estimated recovery amount, liquidation amount, within the maximum allowance rate for each classification.

## Special Reserve

Special reserve refers to the reserve accumulated upon acquisition of trust fee at 25 percent or more until the balance of special reserve reaches 5 percent of the trust accounts for the purpose of reserving unspecific trust accounts whose principle or income should be guaranteed. In cases where the principle of trust accounts needs to recover or the special reserve exceeds the limit, reversal of special reserve is recognized as income. When the purpose of special reserve no longer exists, it is recorded as trust fee.

## Insurance Reserve of KB Life Insurance

KB Life Insurance provides various insurance reserves for payments, refunds, participating policyholders' dividends and related cost in the future as follows:

Premium reserve is a net level premium reserve using interest and mortality assumptions used in computing cash surrender values.

Reserve for outstanding claims represents refunds, dividends and claims reported and unpaid as of the balance sheet date.

Unearned premium reserve represents the unearned portion of quarterly, semi-annual and annual premiums as of the balance sheet date.

Dividends held on deposit for policyholders represent amounts payable to policyholders due to interest rate difference guarantee, mortality gains, excess interest, expense gains and long-term contracts in accordance with the regulations or agreements.

#### 4. Cash and Due from Banks

Cash and due from banks as of December 31, 2008, consist of:

		(In millions of Korean won)
		2008
Cash and checks	₩	2,190,748
Foreign currencies		272,521
Due from banks		5,852,928
	₩	8,316,197

Due from banks as of December 31, 2008, are as follows:

			(In millions of Korean won)
		Interest (%)	2008
Due from banks in won			
Bank of Korea		-	₩ 3,906,568
Korea Development Bank and others		0.00 - 7.70	527,186
Korea Securities Finance Corp. and others		0.00 - 7.60	128,083
			4,561,837
Due from banks in foreign currencies			
Bank of Korea		-	740,197
DBS Bank Ltd. and others		0.00 - 9.38	545,352
			1,285,549
Due from banks in gold			
UBS AG London and others		-	5,542
			₩ 5,852,928

Restricted due from banks as of December 31, 2008, are as follows:

			(In millions of Korean won)
		Interest (%)	2008
Due from banks in won			
Bank of Korea	₩	3,906,568	Required by Bank of Korea Act
Woori Bank and others		231	Escrow account and others
Korea Securities Finance Corp. and others		20,391	Required by Securities and Exchange Act and others
Korea Securities Finance Corp. and others		105,746	Futures margin accounts
Korea Exchange and others		258	Market entry deposit
		4,033,194	
Due from banks in foreign currencies			
Bank of Korea		740,197	Required by Bank of Korea Act
ING and others		101,150	Futures margin accounts/others
Industrial Bank Harbin Branch and others		20,760	China's New Foreign Bank Regulations/others
Citigroup Global Markets Limited		40,303	Collateral for borrowings
		902,410	
	₩	4,935,604	

# Notes to Consolidated Financial Statements

Due from banks, classified by financial institutions, are as follows:

(In millions of Korean won)

	Due from Banks		Due from Bank in	Due from	Total			
	in Won		Foreign Currencies	Bank in Gold				
Bank of Korea	₩	3,906,568	₩	740,197	₩	-	₩	4,646,765
Other banks		527,186		535,712		5,542		1,068,440
Other financial institutions		128,083		9,640		-		137,723
	₩	4,561,837	₩	1,285,549	₩	5,542	₩	5,852,928

The maturities of due from banks as of December 31, 2008, are as follows:

(In millions of Korean won)

	Due in 3 Months or Less	Due After 3 Months Through 6 Months	Due After 6 Months Through 1 Year	Due After 1 year Through 3 Years	More than 3 Years	Total
Due from banks in won	₩ 4,297,601	₩ 35,600	₩ 127,056	₩ 70,160	₩ 31,420	₩ 4,561,837
Due from banks in foreign currencies	1,274,602	10,947	-	-	-	1,285,549
Due from banks in gold	5,542	-	-	-	-	5,542
	₩ 5,577,745	₩ 46,547	₩ 127,056	₩ 70,160	₩ 31,420	₩ 5,852,928

## 5. Securities

Securities as of December 31, 2008, consist of:

(In millions of Korean won)

	2008
Trading securities	₩ 7,643,501
Available-for-sale securities	17,475,496
Held-to-maturity securities	12,915,977
Equity method investments	950,294
	₩ 38,985,268

The details of securities, excluding equity method investments, as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
<b>Trading Securities</b>		
Equity securities	₩	126,818
Beneficiary certificates		222,161
Government and public bonds		2,059,779
Finance bonds		3,367,987
Corporate bonds		1,294,207
Asset-backed securities		502,444
Other securities		70,105
	₩	7,643,501
<b>Available-for-sale Securities</b>		
Equity securities	₩	1,457,174
Equity investments		28,656
Beneficiary certificates		551,139
Government and public bonds		5,886,400
Finance bonds		5,698,588
Corporate bonds		3,438,338
Asset-backed securities		285,024
Other securities		130,177
	₩	17,475,496
<b>Held-to-maturity Securities</b>		
Government and public bonds	₩	6,018,101
Finance bonds		2,761,625
Corporate bonds		3,904,258
Asset-backed securities		221,993
Other securities		10,000
	₩	12,915,977

The fair values of trading and available-for-sale debt securities were determined by applying the average of base prices as of balance sheet date, provided by independent securities valuation institutions.

The fair value of the available-for-sale non-marketable equity securities such as Korea Housing Guarantee Co., Ltd. and 32 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co., Ltd. were reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities.



# Notes to Consolidated Financial Statements

Available-for-sale securities, which are not measured at fair value as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Non-performing Asset Management Fund	₩	23,650
Korea Asset Management Corp.		15,667
Bad Bank Harmony (preferred stock)		13,595
Samsung Life Insurance Co., Ltd.		7,479
Korea Highway Corp.		6,248
Eunpyeong Newtown PFV		5,285
Megaball City		4,920
T-stone 2nd Private Equity Fund		4,600
Casamia		2,700
APTC., Ltd.		2,271
S&S TECH Co., Ltd.		2,034
CDIN Co., Ltd.		2,000
G.I.T Co., Ltd.		1,639
HYSONIC Co., Ltd.		1,392
DACC Ltd.		1,272
NANO Co., Ltd.		1,272
CLS		1,246
Tianjin Samsung Opto_Electronics		1,228
Chase Securities Int'l (London)		1,012
Reyon Pharm. Co., Ltd.		1,060
Others		42,471
	₩	143,041

The impairment loss on available-for-sale securities and held-to-maturity securities for the period ended December 31, 2008, is as follows:

	(In millions of Korean won)	
	2008	
Available for sales securities		
Equity securities	₩	2,864
Debt securities		64,418
		67,282
Held-to-maturity securities		
Debt securities		27,344
	₩	94,626

Structured notes relating to stock, to interest rate, and to credit risk and bonds with call options embedded as of December 31, 2008, are as follows:

		(In millions of Korean won)	
		2008	
Structured notes relating to stock			
Convertible bonds	₩	892	
Exchangeable bonds		5,392	
		6,284	
Structured notes relating to interest rate			
Dual index FRN		30,000	
Inverse FRN		20,000	
Others		60,000	
		110,000	
Structured notes relating to credit risk			
Synthetic CDO		2,797	
Bonds with call options		42,000	
	₩	161,081	

Private beneficiary certificates as of December 31, 2008, consist of:

		(In millions of Korean won)	
		2008	
Stocks	₩	46,287	
Corporate bonds		69	
Call loans		19,491	
Others		4,001	
Assets		69,848	
Liabilities		203	
	₩	69,645	

# Notes to Consolidated Financial Statements

The portfolio of securities, excluding equity method investments, by industry, as of December 31, 2008, is as follows:

	(In millions of Korean won)	
	Amount	Percentage[%]
<b>Trading securities</b>		
Government and government-invested government-invested	₩ 2,597,750	33.99
Financial institutions	4,428,759	57.94
Others	616,992	8.07
	₩ 7,643,501	100.00
<b>Available-for-sale securities</b>		
Government and government-invested public companies	₩ 7,449,476	42.63
Financial institutions	7,624,559	43.63
Others	2,401,461	13.74
	₩ 17,475,496	100.00
<b>Held-to-maturity securities</b>		
Government and government-invested public companies	₩ 9,381,409	72.63
Financial institutions	3,251,765	25.18
Others	282,803	2.19
	₩ 12,915,977	100.00

The portfolio of securities, excluding equity method investments, by security type, as of December 31, 2008, is as follows:

	(In millions of Korean won)	
	Amount	Percentage[%]
<b>Trading securities</b>		
Stocks	₩ 126,818	1.66
Fixed rate bonds	7,238,385	94.70
Floating rate bonds	50,000	0.65
Beneficiary certificates	222,161	2.91
Others	6,137	0.08
	₩ 7,643,501	100.00
<b>Available-for-sale securities</b>		
Stocks	₩ 1,457,174	8.34
Fixed rate bonds	14,137,204	80.90
Floating rate bonds	948,027	5.42
Subordinated bonds	223,119	1.28
Beneficiary certificates	551,139	3.15
Others	158,833	0.91
	₩ 17,475,496	100.00
<b>Held-to-maturity securities</b>		
Fixed rate bonds	₩ 12,828,497	99.32
Floating rate bonds	76,588	0.59
Convertible bonds	892	0.01
Others	10,000	0.08
	₩ 12,915,977	100.00

The portfolio of securities, excluding equity method investments, by country, as of December 31, 2008, is as follows:

(In millions of Korean won)

	Amount	Percentage (%)
<b>Trading securities</b>		
Korea	₩7,643,501	100.00
<b>Available-for-sale securities</b>		
Korea	₩17,256,259	98.74
USA	179,404	1.03
UK	22,412	0.13
Bangladesh	10,436	0.06
India	2,479	0.01
China	1,318	0.01
Switzerland	1,246	0.01
Others	1,942	0.01
	₩17,475,496	100.00
<b>Held-to-maturity securities</b>		
Korea	₩12,905,677	99.92
USA	10,300	0.08
	₩12,915,977	100.00

The maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2008, are as follows:

(In millions of Korean won)

	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years Through 10 Years	More Than 10 Years	Total
<b>Available-for-sale securities</b>					
Fair value	₩3,732,883	₩11,584,842	₩526,640	₩145,301	₩15,989,666
<b>Held-to-maturity securities</b>					
Book value	1,111,645	8,080,412	3,670,161	53,759	12,915,977
Fair value	1,118,288	8,233,996	3,775,583	55,455	13,183,322

# Notes to Consolidated Financial Statements

The valuation of equity method investments for the period ended December 31, 2008, is as follows:

(In millions of Korean won)

	Beginning Balance	Acquisition (disposal)	Dividend	Foreign Exchange Trading Income	Retained Earnings	Gain (Loss) on Valuation of Equity Method Investments	Other Compre- hensive Income (loss)	Ending Balance
<b>Domestic stocks</b>								
ING Life Insurance Korea Co., Ltd.	₩ 148,545	₩ (155,861)	₩ -	₩ -	₩ -	₩ (632)	₩ 7,948	₩ -
KLB Securities Co., Ltd. <sup>1,2</sup>	-	-	-	-	-	-	-	-
Joeeun Industrial Co., Ltd. <sup>1,2</sup>	-	-	-	-	-	-	-	-
Balhae Infrastructure Fund	97,872	9,744	(2,325)	-	-	2,903	-	108,194
Korea Credit Bureau Co., Ltd.	2,530	-	-	-	-	180	-	2,710
	248,947	(146,117)	(2,325)	-	-	2,451	7,948	110,904
<b>Foreign stocks</b>								
KookminBank Singapore Ltd. <sup>1</sup>	1,812	-	-	372	-	-	-	2,184
Kookmin Finance Asia Ltd.(HK) <sup>1</sup>	253	-	-	52	-	-	-	305
Sorak Financial Holdings PTE Ltd.	92,720	(137,332)	-	13,442	-	464	30,706	-
JSC Bank CenterCredit <sup>3</sup>	-	817,539	-	60,380	(208)	(84,919)	(1,836)	790,956
KB Investment&Securities Hong Kong Limited	1,220	-	-	-	-	(147)	262	1,335
	96,005	680,207	-	74,246	(208)	(84,602)	29,132	794,780
<b>Equity Investments</b>								
KB06-1 Venture Investment Partnership	-	14,668	-	-	-	(132)	(107)	14,429
KB08-1 Venture Investment Partnership	-	7,500	-	-	-	(122)	-	7,378
Kookmin Investment Partnership No.16 <sup>1</sup>	46	-	-	-	-	-	-	46
Kookmin ChinaFund No.1 <sup>1</sup>	303	-	-	-	-	-	-	303
KTTC Kookmin Venture Partnership No.1 <sup>1</sup>	1,000	-	-	-	-	-	-	1,000
KB03-1 Venture <sup>1</sup> Investment Partnership	2,200	(500)	(250)	-	-	(114)	(21)	1,315
NPS 05-6 KB Venture Partnership	4,500	-	-	-	-	125	(47)	4,578
NPS 07-5 KB Venture Partnership	3,757	1,000	-	-	-	322	-	5,079
KB03-1 Corporate Restructuring Fund <sup>1</sup>	4,340	-	-	-	-	165	-	4,505
KB06-1 Corporate Restructuring Fund	1,160	-	-	-	-	(10)	-	1,150
NPS 06-5KB Corporate Restructuring Fund	4,861	-	-	-	-	(34)	-	4,827
	22,167	22,668	(250)	-	-	200	(175)	44,610
	₩ 367,119	₩ 556,758	₩ (2,575)	₩ 74,246	₩ (208)	₩ (81,951)	₩ 36,905	₩ 950,294

<sup>1</sup> Under liquidation.

<sup>2</sup> The equity method is no longer applied to the securities of KLB Securities Co., Ltd. and Jooeun Industrial Co., Ltd. due to their accumulated deficit resulting to the decrease in their book values to below zero. Their respective accumulated deficit, which was not recorded as of December 31, 2008, is as follows:

		(In millions of Korean won)	
		2008	
KLB Securities Co., Ltd.	₩	4,148	
Jooeun Industrial Co., Ltd.		65,355	
	₩	69,503	

<sup>3</sup> The difference between the cost of the investment and the amount of the underlying equity in JSC Bank CenterCredit net assets amounts to ₩ 557,206 million. This difference resulted from the purchase of shares in 2008 which is amortized over five years using the straight-line method and charged to the loss on valuation of equity method investments. As a result, ₩ 52,950 million was charged to operations for the period ended December 31, 2008, and the unamortized balance amounts to ₩ 504,256 million as of December 31, 2008. In addition, foreign currency translation gain (loss) includes gain on valuation of fair value hedged item of ₩ 52,748 million. And, Kookmin Bank has ₩ 183,785 million (fair value) of JSC Bank CenterCredit shares which are listed securities accounted for using the equity method.

Unaudited financial statements as of December 31, 2008, were used for the valuation of equity method investments. There was no material exception as a result of analytical review, which included analysis of major accounts to assess reliability of those financial statements. In addition, the financial statements of JSC Bank CenterCredit, which were prepared in accordance with the generally accepted accounting principles of Kazakhstan, were adjusted under the equity method in conformity with the Korean generally accepted accounting principles. The adjustments resulted in ₩ 47,274 million decrease in net assets.

Securities provided as collateral as of December 31, 2008, are as follows:

				(In millions of Korean won)
	Book Value	Collateral Amount	Provided for	
Korea Securities Depository & others	₩ 6,004,677	₩ 6,018,800	Bonds sold under repurchase agreements	
Bank of Korea	2,460,173	2,510,000	Borrowings	
Bank of Korea	321,361	331,500	Overdrafts and settlement risk	
Samsung Futures & others	2,235,592	2,224,902	Derivative settlement	
Korea Securities Depository & others	78,784	85,000	Securities lending and borrowing transactions	
Others	1,387,907	1,352,461	Others	
	₩ 12,488,494	₩ 12,522,663		

Securities lent as of December 31, 2008, are as follows:

			(In millions of Korean won)
	2008	Provided to	
Government and public bonds	₩ 314,155	Korea Securities Finance Corp. and others	
Stocks	23,077	Korea Securities Depository	
	₩ 337,232		

# Notes to Consolidated Financial Statements

## 6. Loans Receivable

Loans receivable as of December 31, 2008, consist of:

	(In millions of Korean won)	
	2008	
Call loans	₩	157,983
Domestic import usance bill		2,444,897
Credit card receivables		11,526,024
Bills bought in foreign currencies		2,754,415
Bills bought in won		486,555
Bonds purchased under repurchase agreements		1,230,000
Loans		178,850,090
Factoring receivables		10,328
Advances for customers		73,140
Private placed bonds		4,685,622
Loans for debt-equity swap		1,204
		202,220,258
Less: Allowance for possible loan losses		(3,477,442)
Deferred loan origination fees and costs		187,370
	₩	198,930,186

Loans receivable as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Loans in Won		
Working capital loans		
General purpose loans	₩	40,994,684
Notes discounted		792,529
Overdraft accounts		486,254
Trading notes		1,141,173
Commercial		8,936,341
Others		52,350,981
Facilities loans		
General facilities loans		15,857,250
Others		1,666,511
		17,523,761
		69,874,742
General purpose loans		51,411,328
Housing loans		45,291,675
Households		48,431
Remunerations on mutual installment savings		430,716
Others		97,182,150
Public operation loans		2,807,749
Public sector		50,090
Public facilities loans		2,857,839
Other		512
Property formation loans		512



		2008
Other	Others	575,473
		575,985
		170,490,716
Loans in Foreign Currencies		
	Domestic funding loans	7,007,131
	Overseas funding loans	1,159,111
	Inter-bank loans	113,842
	Government funding loans	79,290
		8,359,374
		₩ 178,850,090

Loans, classified by borrower type, as of December 31, 2008, are as follows:

(In millions of Korean won)					
	Loans in Won	Loans in Foreign currencies	Total	Percentage (%)	
Large corporations	₩ 9,420,741	₩ 5,051,609	₩ 14,472,350	8.09	
Small and medium corporations	60,238,261	3,062,270	63,300,531	35.39	
Households	97,716,663	45,379	97,762,042	54.66	
Others	3,115,051	200,116	3,315,167	1.86	
	₩ 170,490,716	₩ 8,359,374	₩ 178,850,090	100.00	

Loans receivable, classified by borrower's country or region, as of December 31, 2008, are as follows:

(In millions of Korean won)					
	Loans in Won	Loans in Foreign currencies	currencies	Total	Percentage (%)
Korea	₩ 170,490,716	₩ 7,526,656	₩ 23,280,186	₩ 201,297,558	99.54
Southeast Asia	-	15,255	76	15,331	0.01
China	-	21,652	1	21,653	0.01
Japan	627,476	140	627,616	0.31	
Central and South America	-	26,905	1	26,906	0.01
USA	-	13,423	915	14,338	0.01
Others	-	128,007	88,849	216,856	0.11
	₩ 170,490,716	₩ 8,359,374	₩ 23,370,168	₩ 202,220,258	100.00

Loans receivable, classified by industry, as of December 31, 2008, are as follows:

(In millions of Korean won)					
	Loans in Won	Loans in Foreign currencies	Others	Total	Percentage (%)
Corporations					
Financial Institutions	₩ 1,740,830	₩ 340,945	₩ 2,486,412	₩ 4,568,187	2.26
Manufacturing	19,494,811	3,459,033	6,155,235	29,109,079	14.39
Services	30,910,843	2,887,834	2,045,603	35,844,280	17.73
Others	20,407,530	1,618,039	2,659,636	24,685,205	12.21
Households	97,716,663	45,379	10,003,074	107,765,116	53.29
Public sector	220,039	8,144	20,208	248,391	0.12
	₩ 170,490,716	₩ 8,359,374	₩ 23,370,168	₩ 202,220,258	100.00

# Notes to Consolidated Financial Statements

Loans to financial institutions as of December 31, 2008, are as follows:

(In millions of Korean won)

	Banks	Other Financial Institutions	Total
Loans in won	₩ -	₩ 1,740,830	₩ 1,740,830
Loans in foreign currencies	113,842	227,103	340,945
Others	1,416,784	1,069,628	2,486,412
	₩ 1,530,626	₩ 3,037,561	₩ 4,568,187

The credit rating on loans receivable as of December 31, 2008, is summarized as follows:

(In millions of Korean won)

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Call loans	₩ 157,983	₩ -	₩ -	₩ -	₩ -	₩ 157,983
Domestic import usance bill	2,370,176	41,554	17,280	6,382	9,505	2,444,897
Credit card receivables	11,245,960	175,432	3,336	48,647	52,649	11,526,024
Bills bought <sup>1</sup>	3,147,976	82,364	3,397	1,046	6,187	3,240,970
Bonds purchased under resale agreement	1,230,000	-	-	-	-	1,230,000
Loans	173,932,831	2,613,385	1,503,569	429,786	370,519	178,850,090
Factoring receivables	10,328	-	-	-	-	10,328
Advances for customers	3,061	3,347	32,544	11,042	23,146	73,140
Privately placed bonds	4,637,277	9,900	35,797	-	2,648	4,685,622
Loans for debt- equity swap	-	-	-	-	1,204	1,204
	₩ 196,735,592	₩ 2,925,982	₩ 1,595,923	₩ 496,903	₩ 465,858	₩ 202,220,258

<sup>1</sup> Includes bills bought in Korean won.

The maturities of loans receivable as of December 31, 2008, are as follows:

(In millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 21,920,495	₩ 888,031	₩ 14,321,945	₩ 37,130,471
Due after 3 months through 6 months	21,708,340	1,594,493	3,073,283	26,376,116
Due after 6 months through 1 year	34,999,298	2,047,345	2,750,769	39,797,412
Due after 1 year through 2 years	20,386,110	1,023,578	1,565,711	22,975,399
Due after 2 years through 3 years	14,813,362	1,240,798	1,108,368	17,162,528
Due after 3 years through 4 years	3,298,804	231,628	63,247	3,593,679
Due after 4 years through 5 years	2,722,891	186,192	310,476	3,219,559
More than 5 years	50,641,416	1,147,309	176,369	51,965,094
	₩ 170,490,716	₩ 8,359,374	₩ 23,370,168	₩ 202,220,258

The disposal of loans receivable for the period ended December 31, 2008, is as follows:

(In millions of Korean won)

	Loans Receivable	Gain on Disposal of Loans	Loss on Disposal of Loans
Korea Housing Finance Corporation	₩ 214,096	₩ 4,488	₩ 43
KB Mortgage Loan 1st Securitization Specialty Co., Ltd.	-	39	-
Woori Bank and others	260,300	92	-
KB 12th Securitization Specialty Co., Ltd.	172,601	-	33,833
Confidence Rehabilitation Fund Corp.	147,149	8,728	-
Deutsche Bank	10,797	3,238	-
NAU IB Capital	422	132	-
	₩ 805,365	₩ 16,717	₩ 33,876

The changes in deferred loan origination fees and costs for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Beginning	Increase	Decrease	Ending
Deferred loan origination fees and costs	₩ 183,371	₩ 23,130	₩ 19,131	₩ 187,370

## 7. Restructured Loans

The loans that were restructured by means of principal reduction, debt-equity swap, interest reduction and maturity extension because of workouts for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Amount Before Restructuring	Principal Reduction	Debt-Equity Swap	Interest Reduction	Extension of Maturity
Workout plan	₩ 61,304	₩ -	₩ -	₩ 4,515	₩ 56,789
Others	10,326	51	2,410	-	7,865
	₩ 71,630	₩ 51	₩ 2,410	₩ 4,515	₩ 64,654

Changes in the present value discounts relating to the outstanding restructured loans for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Principal	Beginning Balance	Addition	Deduction	Ending Balance
Composition	₩ 3,173	₩ 624	₩ -	₩ 133	₩ 491
Workout plan	62,876	3,867	1,927	1,924	3,870
Others	25,626	1,573	592	936	1,229
	₩ 91,675	₩ 6,064	₩ 2,519	₩ 2,993	₩ 5,590

If the loans are restructured by means of reduction of interest rates, cash flows of fixed rate loans are discounted using effective interest rates originally agreed upon and cash flows of floating rate loans are discounted using interest rates determined by adding a credit risk premium, which is calculated at the restructuring date, assuming that debtors' credit at the origination date is effective until the restructuring date, to a benchmark interest rate. The difference between the book value and the present value is presented as an allowance for possible loan losses.

# Notes to Consolidated Financial Statements

## 8. Allowance for Possible Loan Losses

The allowance for possible loan losses as of December 31, 2008, is summarized as follows:

(In millions of Korean won)

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Domestic import usance bill						
Provision amount	₩ 20,406	₩ 3,264	₩ 3,534	₩ 3,328	₩ 9,505	₩ 40,037
Provision ratio (%)	0.86	7.86	20.45	52.15	100.00	1.64
Credit card receivables						
Provision amount	168,672	26,315	667	29,188	52,649	277,491
Provision ratio (%)	1.50	15.00	20.00	60.00	100.00	2.41
Bills bought <sup>1</sup>						
Provision amount	27,062	15,409	679	582	6,187	49,919
Provision ratio (%)	0.86	18.71	20.00	55.57	100.00	1.54
Loans						
Provision amount	1,637,934	379,118	375,024	257,340	370,519	3,019,935
Provision ratio (%)	0.94	14.51	24.94	59.88	100.00	1.69
Factoring receivables						
Provision amount	480	-	-	-	-	480
Provision ratio (%)	4.64	-	-	-	-	4.64
Advances for customers						
Provision amount	27	303	6,509	6,105	23,146	36,090
Provision ratio (%)	0.89	9.05	20.00	55.29	100.00	49.34
Privately placed bonds						
Provision amount	41,553	813	7,272	-	2,648	52,286
Provision ratio (%)	0.90	8.21	20.31	-	100.00	1.12
Loans for debt-equity swap						
Provision amount	-	-	-	-	1,204	1,204
Provision ratio (%)	-	-	-	-	100.00	100.00
Total						
Provision amount	1,896,134	425,222	393,685	296,543	465,858	3,477,442
Provision ratio (%)	0.96	14.53	24.67	59.68	100.00	1.72

<sup>1</sup> Includes bills bought in Korean won.

The changes in allowance for possible loan losses for the period ended December 31, 2008, are as follows:

		(In millions of Korean won)
		2008
Beginning balance <sup>1</sup>	₩	2,847,867
Provision for possible loan losses		1,415,107
Reclassification from other allowances		46
Collection of previously written-off loans		248,402
Repurchase of NPLs sold		1,151
Sales of loans		(18,394)
Loans written-off		(753,259)
Exemption of loans		(2,038)
Changes in exchange rates and others		27,297
Ending balance <sup>1</sup>	₩	3,766,179

<sup>1</sup> Allowance for possible loan losses includes present value discounts amounting to ₩ 5,590 million and allowances for other assets amounting to ₩ 288,737 million as of December 31, 2008.

The allowance for possible losses on other assets as of December 31, 2008, is summarized as follows:

		(In millions of Korean won)
		2008
Suspense receivable	₩	8,916
Uncollected guarantee deposits for rent		1,266
Settlement costs for financial accident		83,312
Derivative instruments		74,489
Others		120,754
	₩	288,737

The allowance for possible loan losses compared to total loans receivable, net of present value discount, is summarized as follows:

				(In millions of Korean won)
	Loans	Allowance for Possible loan Losses	Total	
December 31, 2008	₩ 202,220,258	₩ 3,477,442	₩ 1.72	

## 9. Property and Equipment

The balance for property and equipment as of December 31, 2008, consists of:

		(In millions of Korean won)
		2008
Property and equipment	₩	5,390,949
Less: accumulated depreciation		(1,867,892)
accumulated impairment loss		(20,508)
	₩	3,502,549

# Notes to Consolidated Financial Statements

Property and equipment as of December 31, 2008, consist of:

(In millions of Korean won)

	Acquisition Cost	Accumulated Depreciation	Accumulated Impairment Losses	Book Value
Land <sup>1</sup>	₩ 2,096,724	₩ -	₩ 9,105	₩ 2,087,619
Buildings	1,169,536	229,560	11,403	928,573
Leasehold improvements	344,799	270,716	-	74,083
Equipment and vehicles	1,777,868	1,367,616	-	410,252
Construction in progress	2,022	-	-	2,022
	₩ 5,390,949	₩ 1,867,892	₩ 20,508	₩ 3,502,549

<sup>1</sup> The acquisition cost of land includes net revaluation gain of ₩ 1,094,246 million.

The changes in book value of property and equipment for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Beginning	Acquisition	Replacement	Disposal	Depreciation	Impairment <sup>1</sup>	Gain on Revaluation	Changes due to Currency Translation and Others	Ending
Land	988,540	4,240	2,266	242	-	53,365	1,145,969	211	2,087,619
Buildings	838,474	7,313	97,989	262	12,143	2,197	-	(601)	928,573
Leasehold improvements	69,009	1,100	33,664	23	29,826	-	-	159	74,083
Equipment and vehicles	327,168	234,215	124	2,559	148,208	-	-	(488)	410,252
Construction in progress	25,503	110,562	(134,043)	-	-	-	-	-	2,022
	₩ 2,248,694	₩ 357,430	₩ -	₩ 3,086	₩ 190,177	₩ 55,562	₩ 1,145,969	₩ (719)	₩ 3,502,549

<sup>1</sup> Impairment loss on land includes loss of ₩ 51,723 million from the revaluation.

The published value of the land was ₩ 1,481,856 million.

Property and equipment insured as of December 31, 2008, are as follows:

(In millions of Korean won)

Asset Insured	2008	Insurance Company
Buildings	₩ 1,113,569	Samsung Fire &
Leasehold improvements	164,772	Marine Insurance
Equipment and vehicles and others	388,920	Co., Ltd. and others
	₩ 1,667,261	

Kookmin Bank acquired the main frames and related equipment from IBM Korea, Inc. through the lease contract in 2008. The property and equipment by finance leases and lease obligations as of December 31, 2008, are as follows:

**Property and equipment under finance leases**

		(In millions of Korean won)	
		2008	
Acquisition cost	₩	15,110	
Accumulated depreciation		665	
Book value	₩	14,445	
Depreciation	₩	665	

**Lease obligations**

					(In millions of Korean won)		
	Annual Lease Payment		Interest		Principal		
2009	₩	4,030	₩	590	₩	3,440	
2010		8,470		309		8,161	
2011		33		12		21	
2012		14		11		3	
2013		70		10		60	
2014		137		4		133	
	₩	12,754	₩	936	₩	11,818	

Lease obligations include the amounts of both property and equipment, and intangible assets under finance lease.

As of December 31, 2008, Kookmin Bank plans to obtain additional finance lease amounting to ₩ 87,509 million according to the above finance lease contracts.

As of December 31, 2008, Kookmin Bank revalued its land, the book value of which was recorded at the revalued amount. The revalued amount of land was determined from market-based evidence by appraisal, undertaken by independent qualified specialist. As a result of the revaluation, gain on revaluation of ₩ 1,145,969 million was credited to accumulated other comprehensive income, net of tax amounting to ₩ 252,113 million, and loss on revaluation of ₩ 51,723 million was charged to the current operations.

As of December 31, 2008, the book value of land, measured by cost model, is ₩ 992,826 million.



# Notes to Consolidated Financial Statements

## 10. Other Assets

Other assets as of December 31, 2008, consist of:

		(In millions of Korean won)
		2008
Guarantee deposits paid	₩	1,438,480
Accounts receivable (Note 19)		5,241,945
Accrued income (Note 3)		1,271,329
Prepaid expenses		111,940
Deferred income tax assets (Note 22)		14,633
Derivatives assets (Note 19)		8,385,602
Domestic exchange settlement debits		547,746
Due from trust accounts		241,956
Intangible assets, net (Note 10)		412,897
Sundry assets, (Note 10)		436,800
		18,103,328
Less : Allowances for possible losses (Note 8)		(288,737)
	₩	17,814,591

Intangible assets as of December 31, 2008, consist of:

		(In millions of Korean won)		
	Acquisition Cost	Accumulated Amortization	Book Value	
Goodwill	₩ 809,556	₩ 572,869	₩ 236,687	
Others	311,117	134,907	176,210	
	₩ 1,120,673	₩ 707,776	₩ 412,897	

The changes in intangible assets for the period ended December 31, 2008, are as follows:

		(In millions of Korean won)			
	Beginning	Increase	Decrease	Ending	
Goodwill	₩ 287,254	₩ -	₩ 50,567	₩ 236,687	
Others	127,266	75,276	26,332	176,210	
	₩ 414,520	₩ 75,276	₩ 76,899	₩ 412,897	

Kookmin Bank acquired the main frames and related equipment from IBM Korea, Inc. through a lease contract in 2008 (Note 9).

The intangible assets by finance leases as of December 31, 2008, are as follows:

		(In millions of Korean won)
		2008
Acquisition cost	₩	8,281
Accumulated amortization		173
Book value	₩	8,108
Amortization	₩	173

Sundry assets as of December 31, 2008, are as follows:

		(In millions of Korean won)
		2008
Receivables on cash sent to other banks	₩	200
Supplies		21,394
Deposit money to court <sup>1</sup>		25,169
Unsettled foreign currency		12,005
Suspense receivable		206,416
Others		171,616
	₩	436,800

<sup>1</sup> Includes securities whose book value, face value and fair value are ₩ 18,490 million, ₩ 19,524 million and ₩ 19,876 million, respectively.

## 11. Deposits

Deposits as of December 31, 2008, consist of:

		(In millions of Korean won)
		2008
Demand deposits	₩	48,048,810
Time deposits		89,186,727
Negotiable certificate of deposits		24,974,835
	₩	162,210,372

Details of deposits as of December 31, 2008, consist of:

		(In millions of Korean won)
		2008
Demand Deposits		
Demand deposits in won		
Checking deposits	₩	338,567
Household checking deposits		357,108
Temporary deposits		3,006,480
Passbook deposits		15,027,094
Public fund deposits		168,583
National Treasury deposits		4,796
General savings deposits		16,799,177
Corporate savings deposits		10,513,576
Nonresident's deposit in won		76,341
Nonresident's 'free-won' account		209,633
Others		134,448
		46,635,803
Demand deposits in foreign currencies		
Checking deposits		73,441
Passbook deposits		1,318,822
Temporary deposits		12,481
Others		1,999
		1,406,743

# Notes to Consolidated Financial Statements

	2008
Gold deposits	6,264
	48,048,810
<b>Time Deposits</b>	
Time deposits in won	
Time deposits	₩ 73,265,491
Installment savings deposit	2,904,780
Property formation savings	423
Workers' savings for housing	2
Nonresident's deposits in won	261,429
Nonresident's 'free-won' account	105,351
Long-term savings deposits for workers	2,658
Long-term housing savings deposits	3,640,452
Long-term savings for households	1,495
Workers' preferential savings deposits	4,465
Mutual installment deposits	1,865,480
Mutual installment for housing	2,333,389
Others	3,315,111
	87,700,526
Gain on valuation of fair value hedged item	(9,965)
	87,690,561
Time deposits in foreign currencies	
Time deposits	1,467,778
Installment savings deposits	423
Others	27,965
	1,496,166
	89,186,727
Negotiable certificates of deposits	24,974,835
	₩ 162,210,372

Deposits made by financial institutions as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	Financial Institutions	2008
Demand deposits & time deposits	Banks	₩ 7,677,089
	Others	9,339,655
		17,016,744
Negotiable certificates of deposits	Banks	224,455
	Others	7,171,246
		₩ 24,187,990

The maturities of deposits as of December 31, 2008, are as follows:

(In millions of Korean won)

	Due in 3 Months or Less	Due After 3 Months Through 6 Months	Due After 6 Months Through 1 Year	Due After 1 year Through 3 Years	More than 3 Years	Total
Demand deposits	₩ 48,048,810	₩ -	₩ -	₩ -	₩ -	₩ 48,048,810
Time deposits	34,058,284	11,761,258	32,168,571	5,357,579	5,841,035	89,186,727
Negotiable certificate of deposits	11,026,333	6,707,094	6,982,786	258,622	-	24,974,835
	₩ 93,133,427	₩ 18,468,352	₩ 39,151,357	₩ 5,616,201	₩ 5,841,035	₩ 162,210,372

## 12. Borrowings

Borrowings as of December 31, 2008, consist of:

(In millions of Korean won)

	2008
Call money	₩ 3,443,811
Bills sold	191,435
Bonds sold under repurchase agreements	4,978,020
Securities sold	326,675
Borrowings	11,449,296
Debentures, net of discount of ₩ 84,698	43,106,243
	₩ 63,495,480

Call money as of December 31, 2008, consist of:

(In millions of Korean won)

	Lender	Annual Interest Rate (%)	2008
Call money in Won	Samsung Card and others	2.60 ~ 4.30	₩ 1,306,000
Call money in foreign currencies	Bank of Korea and others	0.40 ~ 6.62	2,137,811
			₩ 3,443,811

Bills sold, bonds sold under repurchase agreements, and securities sold as of December 31, 2008, consist of the following:

(In millions of Korean won)

	Lender	Annual Interest Rate (%)	2008
Bills sold	Teller's Sales	3.37 ~ 6.86	₩ 191,435
Bonds sold under repurchase agreements	Person, group & corporations	3.14 ~ 7.40	4,978,020
Securities sold	Korea Securities Depository and others	-	326,675
			₩ 5,496,130

# Notes to Consolidated Financial Statements

Borrowings as of December 31, 2008, consist of:

				(In millions of Korean won)
	Lender	Annual Interest Rate (%)		2008
<b>Borrowings in Won</b>				
Borrowings from the Bank of Korea	Bank of Korea	1.75	₩	796,205
Borrowings from the Korean government	Ministry of Strategy and Finance and others	0.00 ~ 5.34		697,860
Borrowings from banking institutions	Industrial Bank of Korea and others	4.38 ~ 7.70		201,368
Borrowings from National Housing Fund	National Housing Fund	3.00 ~ 8.00		30,429
Borrowings from non-banking financial institutions	Korea Development Bank and others	2.00 ~ 7.50		45,471
Other borrowings	Small & Medium Business Corporation and others	1.05 ~ 8.23		1,692,013
				3,463,346
<b>Borrowings in foreign currencies</b>				
Due to banks	Wachovia Bank N.A. and others	0.00 ~ 5.16		137,985
Borrowings from banking institutions	DBS Bank Ltd. Singapore and others	1.09 ~ 6.41		3,746,959
Off-shore borrowings in foreign currencies	Centralbank Uzbekistan and others	0.50 ~ 6.50		1,428,997
Other borrowings from banking institutions	Korea Exim Bank and others	3.62 ~ 6.51		957,492
Other borrowings in foreign currencies	ING BELGIUM and others	-		1,714,517
				7,985,950
			₩	11,449,296

Debentures as of December 31, 2008, consist of:

				(In millions of Korean won)
		Annual Interest Rate (%)		2008
<b>Debentures in Won</b>				
Hybrid debentures		6.80 ~ 8.50	₩	898,563
Structured debentures		4.29 ~ 12.00		4,199,849
Subordinated fixed rate debentures in won		4.19 ~ 15.02		8,195,754
Fixed rate debentures		3.45 ~ 7.95		25,726,626
Floating rate debentures		5.25 ~ 6.03		260,000
				39,280,792
Loss(gain) on valuation of fair value hedged items <sup>1</sup>				190,176
				39,470,968
Less: Discounts on debentures				(58,578)
				39,412,390
<b>Debentures in foreign currencies</b>				
Fixed rates debentures		2.60 ~ 4.83		141,209
Floating rates debentures		0.96 ~ 5.47		3,577,845
				3,719,054
Loss(gain) on valuation of fair value hedged items				919
				3,719,973
Less: Discounts on debentures				(26,120)
				3,693,853
			₩	43,106,243

<sup>1</sup> The Consolidated Company amortized ₩ 10 million in interest expense related to the discontinuance of interest rate hedge for the period ended December 31, 2008. The Consolidated Company recognized ₩ 3,440 million as loss on prior redemption of fair value hedged items for the period ended December 31, 2008.

Hybrid debentures and subordinated debentures as of December 31, 2008, are as follows:

(In millions of Korean won)

	Issued date	Expiration date	Annual Interest Rate (%)	2008
Subordinated fixed rate debentures in won	March 2000 ~ November 2002	March 2005 ~ May 2008	-	₩ 16,475
	November 1998	November 2009	15.02	20,900
	November 2000	November 2010	9.57 ~ 9.65	162,051
	June 2001	March 2009	7.86	217,529
	September 2002	March 2010 ~ March 2013	6.51 ~ 6.70	242,637
	November 2002	May 2010 ~ May 2013	6.27 ~ 6.55	158,102
	December 2002	June 2010 ~ December 2014	6.40 ~ 6.65	170,370
	October 2003	January 2009 ~ January 2014	5.18 ~ 5.60	449,051
	February 2004	August 2009 ~ August 2014	5.65 ~ 6.16	700,000
	September 2004	December 2018	5.12	57,784
	December 2004	June 2010	4.19 ~ 4.20	700,000
	March 2006	January 2012	5.67 ~ 5.70	1,900,855
	August 2008	February 2014 ~ February 2016	7.38 ~ 7.51	500,000
	September 2008	March 2014	7.45	427,148
	October 2008	April 2014	7.45	72,852
	November 2008	May 2014	7.70	1,500,000
	December 2008	March 2014 ~ June 2014	7.30 ~ 7.70	900,000
				8,195,754
	Hybrid debentures	June 2003	December 2008	-
August 2003		August 2033	7.00	533,355
October 2003		October 2033	6.80	265,168
December 2008		December 2038	8.50	100,000
			898,563	
			₩ 9,094,317	

Call money and borrowings from financial institutions as of December 31, 2008, are as follows:

(In millions of Korean won)

	Bank of Korea	Other Banks	Others	Total
Call money	₩ 1,509,000	₩ 468,808	₩ 1,466,003	₩ 3,443,811
Borrowings	796,205	6,272,786	2,097,384	9,166,375
	₩ 2,305,205	₩ 6,741,594	₩ 3,563,387	₩ 12,610,186

# Notes to Consolidated Financial Statements

The maturities of borrowings as of December 31, 2008, are as follows:

(In millions of Korean won)

	Due in 3 Months or Less	Due After 3 Months Through 6 Months	Due After 6 Months Through 1 Year	Due After 1 year Through 3 Years	More than 3 Years	Total
Call money	₩ 3,443,811	₩ -	₩ -	₩ -	₩ -	₩ 3,443,811
Bills sold	182,442	7,198	1,795	-	-	191,435
Bonds sold under repurchase agreements	3,395,563	1,054,642	527,650	165	-	4,978,020
Securities sold	-	-	326,675	-	-	326,675
Borrowings	6,067,117	1,080,097	1,417,091	1,468,649	1,416,342	11,449,296
Debentures	4,293,980	2,389,447	4,319,344	18,609,211	13,578,959	43,190,941
	₩ 17,382,913	₩ 4,531,384	₩ 6,592,555	₩ 20,078,025	₩ 14,995,301	₩ 63,580,178

### 13. Accrued Severance Benefits

The changes in accrued severance benefits for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Beginning	Provision	Payment	Other Changes <sup>1</sup>	Ending
Accrued severance benefits	₩ 786,330	₩ 95,757	₩ 36,860	₩ 3,232	₩ 848,459
Severance insurance deposits <sup>2</sup>	(482,548)	(93,493)	(8,889)	(2,000)	(569,152)
Deposits to the National Pension Fund	(89)	-	(34)	-	(55)
	₩ 303,693	₩ 2,264	₩ 27,937	₩ 1,232	₩ 279,252

<sup>1</sup> Includes loss (gain) on foreign currency exchange at Tokyo branch and an overseas subsidiary, and changes in scope of consolidation.

<sup>2</sup> The ending balance includes ₩ 7,975 million in pension plan assets, consisting of:

(In millions of Korean won)

	2008
Cash and cash equivalent	₩ 439
Time deposits	7,536
	₩ 7,975

As of December 31, 2008, a portion of severance benefits was contributed to the pension fund of the defined benefit pension plan, and to the retirement insurance with Kyobo Life Insurance Co., Ltd. In addition, for the period ended December 31, 2008, the provision on severance benefits for employees and directors under the defined contribution pension plan amounted to ₩ 990 million.

### 14. Acceptances and Guarantees, and Allowances for Possible Losses

Acceptances and guarantees as of December 31, 2008, are as follows:

(In millions of Korean won)

	2008
Confirmed acceptances and guarantees in won	
Payment guarantee for issuance of debentures	₩ 1,364
Payment guarantee for loans	159,800
Others	2,328,337
	2,489,501



	2008
Confirmed acceptances and guarantees in foreign currencies	
Acceptances on letters of credit	329,813
Acceptances for letters of guarantee for importers	70,235
Guarantees for performance of contracts	631,697
Guarantees for bids	32,146
Guarantees for borrowings	269,468
Guarantees for repayment of advances	3,465,058
Others	1,819,008
	6,617,425
	9,106,926
Unconfirmed acceptances and guarantees	
Letters of credit	6,821,736
Others	3,127,334
	9,949,070
	₩ 19,055,996

Acceptances and guarantees, by customer, as of December 31, 2008, are as follows:

	(In millions of Korean won)			
	Confirmed	Unconfirmed	Total	Percentage (%)
Large corporations	₩ 6,278,303	₩ 7,718,398	₩ 13,996,701	73.45
Small and medium corporations	2,808,011	2,200,403	5,008,414	26.28
Public sector and others	20,612	30,269	50,881	0.27
	₩ 9,106,926	₩ 9,949,070	₩ 19,055,996	100.00

Acceptances and guarantees, by industry, as of December 31, 2008, are as follows:

	(In millions of Korean won)			
	Confirmed	Unconfirmed	Total	Percentage (%)
Public sector	₩ 29,678	₩ 3,270,823	₩ 3,300,501	17.32
Finance	1,360,012	106,720	1,466,732	7.70
Service	669,798	54,132	723,930	3.80
Manufacturing	5,212,696	5,870,621	11,083,317	58.16
Others	1,834,742	646,774	2,481,516	13.02
	₩ 9,106,926	₩ 9,949,070	₩ 19,055,996	100.00

Acceptances and guarantees, by country, as of December 31, 2008, are as follows:

	(In millions of Korean won)			
	Confirmed	Unconfirmed	Total	Percentage (%)
Korea	₩ 7,980,784	₩ 9,945,428	₩ 17,926,212	94.07
Others	1,126,142	3,642	1,129,784	5.93
	₩ 9,106,926	₩ 9,949,070	₩ 19,055,996	100.00

# Notes to Consolidated Financial Statements

Allowances for possible losses on acceptances and guarantees as of December 31, 2008, are as follows:

(In millions of Korean won)

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Confirmed acceptances and guarantees in won						
Guarantees	₩ 2,486,630	₩ 1,022	₩ 1,291	₩ 114	₩ 444	₩ 2,489,501
Allowance for possible losses	15,210	50	161	32	229	15,682
Ratio (%)	0.61	4.88	12.44	28.24	51.54	0.63
Confirmed acceptances and guarantees in foreign currencies						
Guarantees	₩ 6,384,982	₩ 150,550	₩ 9,258	₩ 70,998	₩ 1,637	₩ 6,617,425
Allowance for possible losses	30,193	5,685	1,294	19,024	818	57,014
Ratio (%)	0.47	3.78	13.98	26.80	50.00	0.86
Unconfirmed acceptances and guarantees						
Guarantees	₩ 9,647,695	₩ 196,372	₩ 4,702	₩ 96,942	₩ 3,359	₩ 9,949,070
Allowance for possible losses	18,535	6,728	188	23,643	672	49,766
Ratio (%)	0.19	3.43	4.00	24.39	20.00	0.50
Total						
Guarantees	₩ 18,519,307	₩ 347,944	₩ 15,251	₩ 168,054	₩ 5,440	₩ 19,055,996
Allowance for possible losses	63,938	12,463	1,643	42,699	1,719	122,462
Ratio (%)	0.35	3.58	10.77	25.41	31.60	0.64

The percentage of allowance for possible losses on acceptances and guarantees, and others as of December 31, 2008 is as follows:

(In millions of Korean won)

	Guarantees and Acceptances and Others	Allowance	Percentage (%)
December 31, 2008	₩ 19,055,996	₩ 122,462	0.64

## 15. Other Allowances

Other allowances as of December 31, 2008, are as follows:

(In millions of Korean won)

	2008
Mileage rewards	₩ 111,011
Credit commitments to SPC	2,367
Dormant accounts	10,346
Unused credit limit	537,889
Preparation for damages	1,621
Trust risk	2,086
Lawsuits and others	42,648
	₩ 707,968

The unused credit limit for other allowances amounts to ₩ 79,671,657 million as of December 31, 2008.

## 16. Other Liabilities

Other liabilities as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Accounts payable (Note 19)	₩	5,442,972
Accrued expense payable (Note 18)		5,348,699
Unearned revenue		177,877
Deferred tax liabilities (Note 22)		160,101
Withholding taxes		116,050
Deposits for letter of guarantees and others		107,965
Accounts for agency businesses		273,599
Domestic exchange settlement credits		203,645
Foreign exchanges settlement credits (Note 20)		67,056
Liabilities incurred from agency relationship		481,559
Derivatives instruments liabilities (Note 19)		8,042,975
Borrowings from trust accounts		2,351,093
Allowance for accrued severance benefits (Note 13)		848,459
Due from insurance retirement benefits		(569,152)
Contribution to national pension plan		(55)
Allowance for acceptances and guarantees losses (Note 14)		122,462
Other allowances (Note 15 and 19)		707,968
Insurance reserve		1,470,019
Sundry liabilities (Note 16)		427,600
	₩	25,780,892

Sundry liabilities as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Suspense payable	₩	31,260
Borrowings for others' business		10,404
Prepaid card and debit card liabilities		19,635
Subscription deposits		39,353
Income tax payable		144,393
Others		182,555
	₩	427,600

# Notes to Consolidated Financial Statements

## 17. Shareholders' Equity

### Capital Stock

The details of capital stock as of December 31, 2008, are as follows:

(In Korean won, except per share amounts)

	2008
Number of authorized shares	1,000,000,000
Par value per share	₩ 5,000
Number of issued shares	356,351,693

### Capital Surplus

Capital surplus as of December 31, 2008, consists of:

(In millions of Korean won)

	Beginning	Changes	Ending
Paid-in capital in excess of par value	₩ 11,273,091	₩ (7,678)	₩ 11,265,413
Other	4,208,098	-	4,208,098
	₩ 15,481,189	₩ (7,678)	₩ 15,473,511

The excess value, which is greater than capital reserve under commercial law, of transferred shares of subsidiaries including treasury shares of Kookmin Bank over the Parent Company's issued capital stock is recorded as other capital surplus, a part of paid-in-capital in excess of par value.

### Capital Adjustments

The changes in capital adjustments as of December 31, 2008, are as follows:

(In millions of Korean won)

	Beginning	Changes	Ending
Treasury stock purchased <sup>1</sup>	₩ (4,208,098)	₩ 1,497,749	₩ (2,710,349)
Loss on sale of treasury stock	-	(432,335)	(432,335)
Others	-	(2,418)	(2,418)
	₩ (4,208,098)	₩ 1,062,996	₩ (3,145,102)

<sup>1</sup> As of December 31, 2008, treasury stock consists of 47,407,671 common shares, which were issued by the Consolidated Company and have no voting rights under the Article 48 of the Financial Holding Company Act.

Through the stock transfer, Kookmin Bank acquired 73,607,601 shares of the Parent Company and has 47,407,671 shares as of December 31, 2008, after disposing of 26,199,930 shares for the period ended December 31, 2008.

### Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Beginning Balance		Changes		Ending Balance	
Gain on valuation of available-for-sale securities	₩	-	₩	193,231	₩	193,231
Gain on valuation of held-to-maturity securities		-		27		27
Gain on valuation of equity method investments		-		9,581		9,581
Loss on valuation of equity method investments		-		(9,634)		(9,634)
Gain on valuation of derivatives		-		442		442
Gain on revaluation of property and equipment		-		893,856		893,856
	₩	-	₩	1,087,503	₩	1,087,503

### Legal Reserve

As required by Article 53 of the Financial Holding Company Act, the Parent Company, each time it declares dividends, is required to appropriate, as a legal reserve, an amount equal to a minimum of 10% of annual net income, until such reserve equals its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit.

### 18. Share-Based Payments

The Consolidated Company granted several share-based payments to employees and executives including the president. When the stock options are exercised, the Consolidated Company has the option to settle either through issuance of new shares or treasury stock, or through payment of cash equivalent to the difference between the market price and the exercise price. In accordance with the resolution of the Board of Directors on August 23, 2005, Kookmin Bank changed the settlement method from issuance of treasury stock to payment of cash equivalent to the difference between the market price and the exercise price only after the remaining treasury stock is issued. The exercisable shares due to the establishment of the Parent Company on September 29, 2008, are switched to common stocks of the Parent Company. Accordingly, the compensation cost of stock options granted before and after the effective date of SKFAS No. 22, Share-based Payments, was measured using the intrinsic value method in accordance with the Interpretations on Financial Accounting Standards 39-35, Accounting for Stock Options, and the fair value method, respectively.

The details of the share-based payments as of December 31, 2008, are as follows:

(In number of shares)

	Grant Date	Exercise Period (years)	Granted Shares <sup>1</sup>	Grant Conditions
Stock Option				
(Kookmin Bank)				
Series 2	01.03.15	8	59,815	Service period: 1 year
Series 7	01.11.16	8	150,000	Service period: 3 years
Series 8-1 <sup>3</sup>	02.03.22	8	46,000	Service period: 1, 3 years
Series 8-2 <sup>4</sup>	02.03.22	8	330,000	Service period: 1, 3 years
Series 9 <sup>4</sup>	02.07.26	8	30,000	Service period: 3 years
Series 10-1 <sup>3</sup>	03.03.21	8	60,000	Service period: 3 years
Series 10-2 <sup>4</sup>	03.03.21	8	120,000	Service period: 3 years
Series 11 <sup>4</sup>	03.08.27	8	30,000	Service period: 3 years
Series 12 <sup>4</sup>	04.02.09	8	60,000	Service period: 1 year
Series 13-1 <sup>3</sup>	04.03.23	8	20,000	Service period: 1 year
Series 14 <sup>3,4</sup>	04.11.01	8	700,000	Service period: 3 years <sup>6</sup>

# Notes to Consolidated Financial Statements

	Grant Date	Exercise Period (years)	Granted Shares <sup>1</sup>	Grant Conditions
Series 15-1 <sup>3</sup>	05.03.18	8	165,000	Service period: 3 years
Series 15-2 <sup>4</sup>	05.03.18	8	750,000	Service period: 3 years
Series 16 <sup>4</sup>	05.04.27	8	15,000	Service period: 3 years
Series 17 <sup>4</sup>	05.07.22	8	30,000	Service period: 3 years
Series 18 <sup>4</sup>	05.08.23	8	15,000	Service period: 3 years
Series 19 <sup>2</sup>	06.03.24	8	930,000	Service period: 1, 2, 3 years
Series 20 <sup>2</sup>	06.04.28	8	30,000	Service period: 3 years
Series 21 <sup>2</sup>	06.10.27	8	20,000	Service period: 2 years
Series 22 <sup>2</sup>	07.02.08	8	885,000	Service period: 1, 3 years
Series 23 <sup>2</sup>	07.03.23	8	30,000	Service period: 3 years
Series Kookmin Credit Card-1 <sup>5</sup>	01.03.22	10	22,146	Service period: 1 year
Series Kookmin Credit Card-2 <sup>3,5</sup>	02.03.29	9	9,990	Service period: 2 years
			4,507,951	
Stock Grants <sup>12</sup>				
(KB Financial Group Inc.)				
Series 1	08.09.29	-	160,006	Service fulfillment <sup>7</sup> Achievements of target <sup>8</sup>
(Kookmin Bank)				
Series 1	07.11.01	-	63,450	Service period: 3 years <sup>9,11</sup>
Series 2 ~ 6	08.01.01 ~ 08.03.19	-	126,242	Service period: 2 years <sup>10</sup>
Series 7	08.03.20	-	28,566	Service period: 1, 3 years <sup>9,11</sup>
Series 8	08.03.25	-	7,440	Service period: 2, 3 years <sup>10,11</sup>
Series 9	08.06.23	-	3,840	Service period: 2 years <sup>10</sup>
Series 10 ~ 11	08.09.11 ~ 08.09.20	-	16,515	Service period: 2 years <sup>10</sup>
Series 12	08.10.18	-	5,760	Service period: 3 year <sup>10</sup>
			251,813	
			411,819	
			4,919,770	

<sup>1</sup> Granted shares represent the total number of shares initially granted to each employee and executive, some of which have not been exercised as of the current balance sheet date.

<sup>2</sup> The exercise price is adjusted by the rate of increase in the aggregate market value of major competitors at the balance sheet date.

<sup>3</sup> The exercise price is adjusted by the rate of increase in the average stock price index of the banking industry at the balance sheet date. For the Series Kookmin Credit Card -2, the exercise price is adjusted by the rate of increase in the average stock price index of the banking industry and Korea Composite Stock Price Index (KOSPI) at the balance sheet date.

<sup>4</sup> The actual number of exercisable granted shares is determined in accordance with the management performance for the contract period of service.

<sup>5</sup> Kookmin Bank took over the stock options granted by Kookmin Credit Card Co., Ltd. whose exercise price and number of shares were adjusted in proportion to the merger ratio.

<sup>6</sup> The 300,000 shares are vested when the targeted ROE is accomplished; 200,000 shares vested when targeted BIS ratio is achieved; and 200,000 shares vested when targeted return on shareholders' equity is met.

<sup>7</sup> In order to exercise their stock grants, at least three years of service as vesting period are required for executive directors, while the fulfillment of their remaining contracted service period is required for non-executive directors.

<sup>8</sup> The 30 percent of the shares to be granted will be based on the achievement of the targeted asset incremental ratio, while another 30 percent will be based on the targeted return on asset ratio. The remaining 40 percent will be based on the achievement of the targeted relative TSR ratio. However, some of total granted shares will be compensated regardless of the above achievements of the targets as long as service requirement is fulfilled.

<sup>9</sup> The 25 percent of granted shares are vested when targeted assets growth rate is accomplished; 25 percent of granted shares vested when targeted ROA is

achieved, and 50 percent of granted shares vested when targeted relative TSR is met.

10 The 30 percent of granted shares are vested when targeted KPI is accomplished; 30 percent of granted shares vested when targeted financial result of Kookmin Bank is achieved; and 40 percent of granted shares vested when targeted relative TSR is met.

11 For several stock grants, granted shares are vested without non-market performance conditions.

12 Under the stock grant, the number of vested shares among the maximum of exercisable granted shares predetermined on grant date is determined based on the achievement of the targeted performance results.

The changes in granted shares and the weighted average exercise price of the stock options, except for stock grants for the period ended December 31, 2008, are as follows:

(In Korean won, except per share amounts)

	Beginning	Exercised	Expired	Ending	Exercise Price	Remaining Period to Maturity(years)
Series 2	68,761	22,267	-	46,494	₩ 28,027	0.20
Series 7	75,000	-	-	75,000	51,200	0.88
Series 8-1	28,263	3,321	-	24,942	57,100	1.22
Series 8-2	196,831	-	-	196,831	57,100	1.22
Series 9	23,899	-	-	23,899	58,800	1.57
Series 10-1	40,063	-	-	40,063	47,360	2.22
Series 10-2	67,993	-	-	67,993	35,500	2.22
Series 11	5,091	-	-	5,091	40,500	2.65
Series 12	54,250	-	-	54,250	46,100	3.11
Series 13-1	20,000	-	-	20,000	48,800	3.23
Series 14	610,000	-	-	610,000	50,600	3.84
Series 15-1	125,362	-	-	125,362	54,656	4.21
Series 15-2	510,007	-	963	509,044	46,800	4.21
Series 16	8,827	-	-	8,827	45,700	4.32
Series 17	30,000	-	559	29,441	49,200	4.56
Series 18	7,212	-	-	7,212	53,000	4.65
Series 19	817,644	-	63,409	754,235	77,056	5.23
Series 20	30,000	-	4,233	25,767	81,900	5.33
Series 21	20,000	-	1,013	18,987	76,600	5.82
Series 22	883,026	-	115,495	767,531	77,100	6.11
Series 23	30,000	-	14,754	15,246	84,500	6.23
Series Kookmin Credit Card -1	22,146	-	-	22,146	71,538	2.22
Series Kookmin Credit Card -2	9,990	-	-	9,990	129,100	2.24
	3,684,365	25,588	200,426	3,458,351	61,837	4.38

The weighted average stock price of the stock options exercised for the period ended December 31, 2008, is ₩ 57,016 per share.

# Notes to Consolidated Financial Statements

Series 22 and Series 23 are measured at fair value based on the Black-Scholes Model, and the factors used in determining the fair value, are as follows:

(In millions of Korean won)

	Stock Price per Share	Exercise Price per Share	Expected Stock Price Volatility (%)	Maturity (years)	Expected Dividend per Share	Risk Free Rate (%)	Fair Value
Series 22-1(Director)	₩ 33,200	₩ 77,100	₩ 31.92	₩ 3.28	₩ 3,117	₩ 2.82	₩ 814
Series 22-2(Employee)	33,200	77,100	29.10	4.07	3,817	2.90	857
Series 23	33,200	84,500	31.37	3.40	3,223	2.83	589

The expected weighted average exercise period was separately estimated for directors and employees in order to reflect the possibility of an early exercise. The historical stock price volatility during the respective expected exercise period was applied to the calculation of the expected stock price volatility and estimated based on the cross volatility of the stock price between the Parent Company and its competitors after October 10, 2008, and the between Kookmin Bank and Kookmin Bank's competitors before October 10, 2008 in order to adjust the exercise price in proportion to the change of the market value of the competitors.

The value of stock grant is measured at fair value as of December 31, 2008. The amount for each stock grant is ₩ 33,200.

As of December 31, 2008, the accrued expenses under the share-based payment amounted to ₩ 3,119 million and the intrinsic value of the vested share option amounted to ₩ 364 million. The reversal of the compensation cost amounting to ₩ 27,291 million was reflected as selling and administration expenses for the period ended December 31, 2008.

## 19. Contingencies and Commitments

The Consolidated Company holds written-off loans receivable, over which the Consolidated Company still has claims on the borrowers and guarantors, amounting to ₩ 11,705,037 million as of December 31, 2008.

As of December 31, 2008, the Consolidated Company recorded receivables amounting to ₩ 4,560,352 million and payables amounting to ₩ 4,561,021 million for unsettled foreign currency spot transactions.

As of December 31, 2008, the Consolidated Company has entered into commitments to provide credit lines of ₩ 210,282 million to asset securitization companies and to purchase their commercial papers for up to ₩ 1,555,300 million. The said commitments will ensure availability of funds in case these asset securitization companies experience cash shortage when they eventually redeem their issued debentures and related interests. As of December 31, 2008, under these commitments, extended loans amounted to ₩ 2,210 million, while purchased commercial papers amounted to ₩ 471,800 million. The expected loss of ₩ 2,367 million from the commitments made is recorded as other liability. In addition, unused credit in foreign currencies amounts to ₩ 10,065,249 million and the unused credit, excluding for the unused credit limit for other allowances, amounts to ₩ 1,361,458 million as of December 31, 2008.

On December 17, 2008, the Consolidated Company agreed to subscribe ₩ 1,050,836 million in private indirect reinvestment trusts for stabilization of bond markets. The subscribed amount for the current period is ₩ 525,418 million, and as of December 31, 2008, the outstanding amount to be subscribed is ₩ 525,418 million.



Commitments the Consolidated Company made with financial institutions are as follows:

(In millions of Korean won)				
	Creditor	Debtor	Credit Limit	Current Balance
Overdraft accounts	Korea Securities Finance Corp.	KB Asset Management Co., Ltd.	₩ 30,000	₩ -
	Korea Securities Finance Corp.	KB Investment & Securities Co., Ltd.	100,000	-
Discounted Commercial Paper	Korea Exchange Bank	KB Real Estate Trust Co., Ltd.	15,000	-
	Tong Yang Securities Inc.	KB Real Estate Trust Co., Ltd.	40,000	10,000
	Meritz Investment Bank	KB Real Estate Trust Co., Ltd.	10,000	-
			165,000	10,000
Half-day call loan	Korea Securities Finance Corp.	KB Investment & Securities Co., Ltd.	50,000	-
Operating loan	Korea Securities Finance Corp.	KB Investment & Securities Co., Ltd.	50,000	-
	Hana Bank KB	Financial Group Inc.	50,000	10,000
		KB Real Estate Trust Co., Ltd.	40,000	22,800
General purpose loan	Woori Bank	KB Financial Group Inc.	130,000	120,000
		KB Real Estate Trust Co., Ltd.	30,000	12,500
			250,000	165,300
			₩ 545,000	₩ 175,300

As of December 31, 2008, Korea Housing Guarantee Co., Ltd. has issued six promissory notes to KB Real Estate Trust Co., Ltd. with a total face value of ₩ 1,023,178 million as a guarantee for land trust business. Additionally, the guarantee of ₩ 94,268 million by Seoul Guarantee Insurance Company for land trust business has been provided.

KB Data Systems Co., Ltd. is responsible for providing the additional service for repair which may occur within one year for certain service contracts. Accordingly, KB Data Systems Co., Ltd. has been provided with the guarantee of ₩ 3,195 million by Seoul Guarantee Insurance Company.

The Consolidated Company entered into business cooperation agreements with Citibank and Nonghyup regarding the credit card business. Accordingly, the revenue from credit card business is proportionally recognized for each company.

The face value of the consumer investment securities amounts to ₩ 257,340 million as of December 31, 2008.

The Consolidated Company has filed 143 lawsuits (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate claims of ₩ 443,910 million and faces 270 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 1,281,788 million, which arose in the normal course of the business and are still pending as of December 31, 2008. The Korea Lottery Service Inc. (the "KLS") filed lawsuits against Kookmin Bank in relation to the commitment fees (3 cases with aggregate claims of ₩ 599,713 million). However, the government (lottery fund) will be substantially liable for the damages if the court rules in favor of the plaintiff. Thus, it is expected that the lawsuits would not affect Kookmin Bank's financial position. In relation to one case with claims of ₩ 19,557 million, the high court ordered Kookmin Bank to pay the commitment fee of ₩ 4,495 million and related past due interest to KLS, and the third trial is pending at the Supreme Court as of December 31, 2008. For the case with claims of ₩ 445,877 million, the court ordered the payments of commitment fee, ₩ 122,740 million, and related past due interest to KLS as a result of the first trial, and consequently the second trial is pending. The case with claims of ₩ 134,279 million is in progress at the first trial as of December 31, 2008.

The government also filed a civil lawsuit against KLS, the accounting firm, the Bank and their responsible persons with aggregate claims amounting to ₩ 320,800 million for the overpayment of lottery service commission fees to KLS. This litigation is pending at the first trial as of December 31, 2008. On January 8, 2009, at the criminal lawsuit filed by the Korea Prosecutory Authorities against Kookmin Bank's employee,

# Notes to Consolidated Financial Statements

the High Court declared Kookmin Bank's employee not guilty. However, the prosecutor appealed to the Supreme Court against the above decision on January 13, 2009. It is uncertain that Kookmin Bank will be ultimately liable for the aforementioned aggregate claims in the civil lawsuit, and a reliable estimate cannot be made of the amount of the potential liabilities as of December 31, 2008.

In 2008, the government had filed a civil lawsuit against Kookmin Bank for the return of ₩ 116,646 million of commission fee, claiming that the commission fee related to the management of the National Housing Fund was unduly overpaid. The first court decided in favor of Kookmin Bank on January 9, 2009. But the government appealed to the High Court against the above decision on January 30, 2009.

Kookmin Bank purchased outstanding 29,972,840 shares of a Joint Stock Company, Bank CenterCredit (Kazakhstan) (the "BCC") representing 23 percent of the total outstanding shares from existing shareholders from the Kazakhstan Stock Exchange on August 27, 2008, and additional 14,163,836 shares (including 10,298,558 forfeited shares) from new stock issuance on November 21, 2008. As a result, Kookmin Bank currently holds 30.55 percent (44,136,676 shares) of the total issued shares. In addition, the Bank is planning to purchase additional shares to increase its ownership to over 50.1 percent within 30 months after the aforementioned initial acquisition date.

Kookmin Bank was assessed on income tax and others of ₩ 438,975 million as a consequence of the regular tax audit performed by the Seoul Regional Tax Office and paid it in 2007. The Bank has filed an appeal against the above assessment through proper legal procedures.

Borrowed securities held by KB Investment & Securities Co., Ltd. are planned to be used for the securities lending and borrowing transaction and ultimately financially support the Consolidated Company. The total amount of borrowed securities under the plan is ₩ 283,835 million as of December 31, 2008.

The notional amounts outstanding for derivative contracts as of December 31, 2008, are as follows:

	(In millions of Korean won)		
	Trading	Hedge	Total <sup>1</sup>
<b>Interest rate</b>			
Interest rate futures	₩ 4,312,651	₩ -	₩ 4,312,651
Interest rate swaps	78,629,856	5,359,799	83,989,655
Interest rate options purchased	3,250,000	-	3,250,000
Interest rate options sold	3,585,475	-	3,585,475
	89,777,982	5,359,799	95,137,781
<b>Currency</b>			
Currency forwards	60,978,331	793,597	61,771,928
Currency futures	1,434,797	-	1,434,797
Currency swaps	21,371,552	-	21,371,552
Currency options purchased <sup>2</sup>	7,173,716	-	7,173,716
Currency options sold <sup>2</sup>	7,143,368	-	7,143,368
	98,101,764	793,597	98,895,361
<b>Stock</b>			
Stock index futures	6,173	-	6,173
Stock options purchased	848,728	-	848,728
Stock options sold	1,780,375	-	1,780,375
Stock swaps	495,523	-	495,523
	3,130,799	-	3,130,799
<b>Others</b>			
Merchandise options purchased	44,497	-	44,497

	Trading	Hedge	Total <sup>1</sup>
Merchandise options sold	43,389	-	43,389
Merchandise forwards	120,397	-	120,397
Merchandise swaps	957	-	957
Other derivatives	60,000	190,000	250,000
	269,240	190,000	459,240
	₩ 191,279,785	₩ 6,343,396	₩ 197,623,181

<sup>1</sup> For transactions (excluding currency option) between the Korean won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate at balance sheet date based on the contract amount in foreign currencies. For transactions (excluding currency option) between foreign currencies and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate at balance sheet date based on foreign currencies purchased.

<sup>2</sup> For currency option transactions, unsettled amount of transaction is classified into currency options purchased or currency options sold pursuant to the Accounting Guidelines' Appendix 5 of the Financial Supervisory Commission in Republic of Korea. For transactions between the Korean won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate at balance sheet date based on the contract amount in foreign currencies. For transactions between foreign currencies and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate at balance sheet dates based on the currencies expected to receive at maturity.

The details of derivatives and the valuation of derivatives for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)				
	Gain(Loss) on Valuation (P/L)			Gain (loss) on Valuation (B/S)	
	Trading	Hedge	Total	Assets	Liabilities
<b>Interest rate</b>					
Interest rate options purchased	₩ 19,683	₩ -	₩ 19,683	₩ 48,415	₩ -
Interest rate option sold	(14,271)	-	(14,271)	14	37,409
Interest rate swaps	(311,936)	503,898	191,962	1,228,306	1,410,650
	(306,524)	503,898	197,374	1,276,735	1,448,059
<b>Currency</b>					
Currency forwards	1,303,234	(68,741)	1,234,493	4,424,925	2,718,543
Currency swaps	(790,345)	-	(790,345)	1,303,579	2,588,290
Currency options purchased	592,405	-	592,405	1,046,702	-
Currency options sold	(294,901)	-	(294,901)	-	597,169
	810,393	(68,741)	741,652	6,775,206	5,904,002
<b>Stock</b>					
Stock option purchased	55,191	-	55,191	290,622	-
Stock options sold	158,389	-	158,389	-	481,938
Stock swaps	(131,088)	-	(131,088)	16,963	181,682
	82,492	-	82,492	307,585	663,620
<b>Others</b>					
Merchandise options purchased	(449)	-	(449)	590	-
Merchandise options sold	439	-	439	-	573
Merchandise forwards	(274)	-	(274)	16,381	15,846
Merchandise swaps	(21)	-	(21)	1,295	1,281
Other derivatives	(3,178)	19,403	16,225	7,810	9,594

# Notes to Consolidated Financial Statements

	Gain(Loss) on Valuation (P/L)			Gain (loss) on Valuation (B/S)	
	Trading	Hedge	Total	Assets	Liabilities
Others	(3,483)	19,403	15,920	26,076	27,294
	₩582,878	₩454,560	₩1,037,438	₩8,385,602	₩8,042,975

The valuation of cash flow hedge accounting is not included.

The Consolidated Company uses various derivative instruments for trading activities and hedging activities to cover foreign exchange risks and interest risks in relation to securities and debentures and to manage interest risks for clients. The unsettled notional amount and the valuation gain or loss for hedging transaction are accounted pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments.

The Consolidated Company holds derivative instruments accounted for as fair value hedges applied to subordinated bonds, structured bonds, structured deposits, off-shore finance bonds, and equity method investments in foreign currencies. The Consolidated Company recognized ₩ 495,194 million in losses on valuation of fair value hedged items for the period ended December 31, 2008. In addition, the interest rate swap and the currency forwards covers the fair value changes of the hedged items resulting from the fluctuation in interest and exchange rate. The sum of differences between the interest rate swap and the currency forwards designated as the fair value hedging instrument and the valuation gain (loss) on the structured bond and the securities using the equity method in foreign currency, and the differences between spot and forward exchange rates, excluded from the evaluation of the hedging effect, is the ineffective portion amounted to ₩ 39,616 million.

The details of the credit default swap as of December 31, 2008, are as follows:

(In millions of Korean won)			
	Amount	Reference Entity	Credits Grades
Sold Credit Default Swap	₩ 3,000	Large Korean corporations	A
Sold Credit Default Swap	100,000	Large Korean corporations	AAA
Sold Credit Default Swap	100,000	Large Korean corporations	AA+
Sold Credit Default Swap	251,500	Korean financial institutions	AAA

Loss can be incurred in relation to the sale of the credit default swap in case of credit events such as default of the reference entity.

## 20. Assets and Liabilities Denominated in Foreign Currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2008, are as follows:

	Currency	Foreign Currencies (In thousands)	USD Equivalent <sup>1</sup> (In thousands)	KRW Equivalent (In millions)
Asset				
	USD	71,429	71,429	89,822
	JPY	5,789,537	64,175	80,700
Foreign currencies	EUR	29,533	41,716	52,458
	GBP	1,851	2,676	3,364
	Others	-	36,721	46,177
			216,717	272,521

	Currency	Foreign Currencies (In thousands)	USD Equivalent <sup>1</sup> (In thousands)	KRW Equivalent (In millions)
Due from banks in foreign currencies	USD	931,275	931,275	1,171,078
	JPY	553,218	6,132	7,711
	EUR	8,229	11,623	14,616
	GBP	759	1,098	1,380
	Others	-	72,178	90,764
			1,022,306	1,285,549
Securities in foreign currencies	USD	1,070,377	1,070,377	1,345,998
	JPY	1,527,556	16,932	21,292
	EUR	60,192	85,021	106,914
	Others	-	639,096	803,665
			1,811,426	2,277,869
Loans in foreign currencies	USD	4,519,678	4,519,678	5,683,495
	JPY	169,324,007	1,876,891	2,360,190
	EUR	42,143	59,528	74,856
	Others	-	191,517	240,833
			6,647,614	8,359,374
Domestic usance import bill	USD	1,700,233	1,700,233	2,138,042
	JPY	14,523,965	160,993	202,448
	EUR	51,285	72,440	91,093
	GBP	742	1,073	1,350
	Others	-	9,513	11,964
			1,944,252	2,444,897
Bills bought in foreign currencies	USD	1,869,641	1,869,641	2,351,074
	JPY	4,600,070	50,990	64,120
	EUR	144,013	203,419	255,799
	GBP	5,019	7,255	9,123
	Others	-	59,085	74,299
			2,190,390	2,754,415
Call loans in foreign currencies	USD	20,573	20,573	25,871
	JPY	930,000	10,309	12,963
	EUR	4,578	6,467	8,132
	GBP	2,600	3,758	4,726
	Others	-	5,003	6,291
			46,110	57,983
Liabilities				
Deposits in foreign currencies	USD	1,857,472	1,857,472	2,335,771
	JPY	20,080,448	222,584	279,899
	EUR	50,442	71,250	89,597
	GBP	6,962	10,064	12,655
	Others	-	147,107	184,987
			2,308,477	2,902,909
Borrowings in foreign currencies	USD	4,112,167	4,112,167	5,171,049
	JPY	81,171,966	899,760	1,131,448
	EUR	720,179	1,017,253	1,279,196

# Notes to Consolidated Financial Statements

	Currency	Foreign Currencies (In thousands)	USD Equivalent <sup>1</sup> (In thousands)	KRW Equivalent (In millions)
Borrowings in foreign currencies	GBP	215,045	310,836	390,876
	Others	-	10,640	13,381
			6,350,656	7,985,950
Call money in foreign currencies	USD	1,480,000	1,480,000	1,861,100
	EUR	140,500	198,456	249,559
	Others	-	21,592	27,152
			1,700,048	2,137,811
Debentures in foreign currencies	USD	1,456,731	1,456,731	1,831,839
	JPY	126,400,000	1,401,095	1,761,877
	EUR	35,000	49,438	62,168
	Others	-	50,965	64,089
			2,958,229	3,719,973
Foreign currencies bills payable	USD	44,162	44,162	55,534
	JPY	446,474	4,949	6,223
	EUR	2,656	3,751	4,717
	GBP	84	121	152
	Others	-	342	430
			53,325	67,056

<sup>1</sup> Foreign currencies other than U.S. dollars were translated into U.S. dollars at the basic rates of exchange at balance sheet date.

## 21. Selling and Administrative Expenses

Selling and administrative expenses for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)
	2008
Salaries	₩ 698,990
Provision for severance benefits	96,747
Severance benefits for voluntary resignation	89,785
Welfare expenses	338,736
Rental expenses	90,886
Depreciation & amortization (Note 9 and 10)	267,076
Tax and dues	87,731
Advertising	57,578
Development expenses	71,004
Other	265,864
	₩ 2,064,397

Information for calculating value added for the period ended December 31, 2008, is as follows:

	(In millions of Korean won)	
	2008	
Salaries	₩	698,990
Provision for severance benefits		96,747
Severance benefits for voluntary resignation		89,785
Welfare expenses		338,736
Rental expenses		90,886
Depreciation and amortization		267,076
Tax and dues		87,731
	₩	1,669,951

Other selling and administrative expenses for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Communication	₩	29,500
Electricity and utilities		10,608
Publication		13,219
Repairs maintenance		8,989
Vehicle		16,736
Training		18,274
Office supplies		21,864
Travel		3,243
Commission expenses		81,009
Other		62,422
	₩	265,864

# Notes to Consolidated Financial Statements

## 22. Income Tax

Income tax expense for the period ended December 31, 2008, consists of:

	(In millions of Korean won)	
	2008	
Parent Company		
Income tax payable	₩	-
Changes in deferred income tax assets and liabilities		4,649
Total income tax effect		4,649
Income tax expense or benefit allocated directly to shareholders' equity		(4,482)
Income tax expense		167
Subsidiaries		
Income tax payable		107,086
Changes in deferred income tax assets and liabilities		(213,622)
Income tax expense of overseas branch		3,616
Total income tax effect		(102,920)
Income tax expense or benefit allocated directly to shareholders' equity		432,333
Income tax expense		329,413
	₩	329,580

Deferred income tax assets and liabilities in the consolidated financial statements as of December 31, 2008, are as follows:

	(In millions of Korean won)			
	Assets		Liabilities	
KB Financial Group Inc.	₩	-	₩	4,655
Kookmin Bank <sup>1</sup>		-		143,021
KB Investment & Securities Co., Ltd.		-		11,211
KB Asset Management Co., Ltd.		37		-
KB Real Estate Trust Co., Ltd.		6,669		-
KB Investment Co., Ltd.		2,809		-
KB Futures Co., Ltd.		-		1,214
KB Credit Information Co., Ltd.		64		-
KB Data Systems Co., Ltd.		5,054		-
	₩	14,633	₩	160,101

<sup>1</sup> Based on its consolidated financial statements including KB Life Insurance, Kookmin Bank Int'l Ltd.(London) and Kookmin Bank Hong Kong Ltd. as subsidiaries.

The Consolidated Company's statutory tax rate including resident tax surcharge is 27.5 percent for the period ended December 31, 2008. However, due to tax adjustments, the effective tax rate for the period ended December 31, 2008, is 35.08 percent.



### 23. Earnings Per Share

Basic earnings per share for the period ended December 31, 2008, is calculated as follows:

		(In Korean won, except per share amount)
		2008
Parent Company interest in net income	₩	611,926,551,438
Weighted-average number of common shares outstanding <sup>1</sup>		286,715,961
Basic earnings per share	₩	2,134

<sup>1</sup> The weighted average number of common shares outstanding is computed as follows:

		(In number of shares)
		2008
Beginning		356,351,693
Acquisition of treasury stock		(73,607,601)
Sale of treasury stock		3,971,869
Weighted average number of common shares outstanding		286,715,961

Basic earnings per share for the period ended December 31, 2008, equals the diluted earnings per share because there has been no dilution in the weighted average number of common stock outstanding.

Potential common stocks not included in the computation of diluted earnings per share for the period ended December 31, 2008, due to the effect of anti-dilutive, may result in the dilution of earnings per share in the future.

The number of potential common stock which may result in the dilution of earnings per share follows:

		(In number of shares)
		Number of Shares to Be Issued
Stock Grant		411,819

### 24. Comprehensive Income

Comprehensive income for the period ended December 31, 2008, consists of:

		2008
Net income	₩	609,828
Other comprehensive income		
Gain on valuation of available-for-sale securities		193,260
Gain on valuation of held-to-maturity securities		59
Gain on valuation of equity method investments		9,581
Loss on valuation of equity method investments		(9,634)
Gain on valuation of derivatives		866
Gain on revaluation of property and equipment		893,856
Comprehensive income	₩	1,697,816
Parent Company's comprehensive income	₩	1,699,430
Minority's comprehensive income		(1,614)

# Notes to Consolidated Financial Statements

## 25. Segment Financial Information

Balance sheets per business segment as of December 31, 2008, are as follows:

(In millions of Korean won)

	Financial & Insurance Business	Non-Financial Business	Consolidation Adjustment	Total
Cash and due from banks	₩ 8,484,952	₩ 21,970	₩ (190,725)	₩ 8,316,197
Securities	57,065,999	-	(18,080,731)	38,985,268
Loans receivable	200,488,233	798	(1,558,845)	198,930,186
Property and equipment	3,504,735	311	(2,497)	3,502,549
Other assets	18,424,268	23,453	(633,130)	17,814,591
	₩ 287,968,187	₩ 46,532	₩ (20,465,928)	₩ 267,548,791
Deposits	162,843,928	-	(633,556)	162,210,372
Borrowings	64,606,053	-	(1,110,573)	63,495,480
Other liabilities	26,136,490	19,993	(375,591)	25,780,892
	253,586,471	19,993	(2,119,720)	251,486,744
Common stock	4,624,716	8,000	(2,850,958)	1,781,758
Capital surplus	21,874,713	-	(6,401,202)	15,473,511
Capital adjustments	(3,146,344)	-	1,242	(3,145,102)
Accumulated other comprehensive income	1,514,342	-	(426,839)	1,087,503
Retained earnings	9,514,289	18,539	(8,901,887)	630,941
Minority interests	-	-	233,436	233,436
	34,381,716	26,539	(18,346,208)	16,062,047
	₩ 287,968,187	₩ 46,532	₩ (20,465,928)	₩ 267,548,791

Statements of income per business segment for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Financial & Insurance Business	Non-Financial Business	Consolidation Adjustment	Total
Operating revenue	₩ 29,777,854	₩ 101,744	₩ (150,315)	₩ 29,729,283
Operating expenses	29,626,354	94,194	(618,566)	29,101,982
Operating income	151,500	7,550	468,251	627,301
Non-operating income	521,461	(595)	(208,759)	312,107
Income before income tax	672,961	6,955	259,492	939,408
Income tax expense	420,100	1,877	(92,397)	329,580
Net income	₩ 252,861	₩ 5,078	₩ 351,889	₩ 609,828
Parent Company interests	₩ 252,861	₩ 5,078	₩ 353,988	₩ 611,927
Minority interests	-	-	(2,099)	(2,099)

Financial information per industry segment as of and for the period ended December 31, 2008, is as follows:

(In millions of Korean won)

	Banking	Trust Account	Others	Consolidation Adjustment	Total
Operating revenue	₩ 29,034,718	₩ 112,533	₩ 732,347	₩ (150,315)	₩ 29,729,283
Less: inter-company transaction	(61,922)	(4,960)	(83,433)	150,315	-
Net operating revenue	₩ 28,972,796	₩ 107,573	₩ 648,914	₩ -	₩ 29,729,283
Operating income	₩ 128,429	₩ (110)	₩ 30,731	₩ 468,251	₩ 627,301
Cash and due from banks	₩ 7,752,537	₩ 296,440	₩ 457,945	₩ (190,725)	₩ 8,316,197
Securities	35,264,653	2,246,279	19,555,067	(18,080,731)	38,985,268
Loans receivable	199,450,270	508,651	530,110	(1,558,845)	198,930,186
Property and equipment	3,493,078	-	11,968	(2,497)	3,502,549
Other assets	17,262,783	463,614	721,324	(633,130)	17,814,591
	₩ 263,223,321	₩ 3,514,984	₩ 21,276,414	₩ (20,465,928)	₩ 267,548,791

Financial information per geographical area as of and for the period ended December 31, 2008, are as follows:

(In millions of Korean won)

	Domestic	Overseas	Consolidation Adjustment	Total
Operating revenue	₩ 29,840,606	₩ 38,992	₩ (150,315)	₩ 29,729,283
Less: inter-company transaction	(151,185)	870	150,315	-
Net operating revenue	₩ 29,689,421	₩ 39,862	₩ -	₩ 29,729,283
Operating income	₩ 159,812	₩ (762)	₩ 468,251	₩ 627,301
Cash and due from banks	₩ 8,482,681	₩ 24,241	₩ (190,725)	₩ 8,316,197
Securities	56,730,263	335,736	(18,080,731)	38,985,268
Loans receivable	199,733,586	755,445	(1,558,845)	198,930,186
Property and equipment	3,504,735	311	(2,497)	3,502,549
Other assets	18,433,311	14,410	(633,130)	17,814,591
	₩ 286,884,576	₩ 1,130,143	₩ (20,465,928)	₩ 267,548,791

# Notes to Consolidated Financial Statements

## 26. Related Party Transactions

Significant balances with related parties as of December 31, 2008, are as follows:

	(In millions of Korean won)	
	Assets	Liabilities
Parent Company		
KB Financial Group Inc.	₩ 216,203	₩ 362
Subsidiaries		
Kookmin Bank	974,040	1,109,543
KB Investment & Securities., Ltd.	6,914	202,365
KB Life Insurance Co., Ltd.	8,776	3,335
KB Asset Management Co., Ltd.	107,444	110
KB Real Estate Trust Co., Ltd.	742	31,767
KB Investment Co., Ltd.	19	10,345
KB Futures Co., Ltd.	11,470	1,949
KB Credit Information Co., Ltd.	40,970	95
KB Data Systems Co., Ltd.	41,340	175
Trust accounts <sup>1</sup>	427,277	32,922
Kookmin Bank International Ltd.(London)	288,548	491,392
Kookmin Bank HongKong Ltd.	164,029	403,412
	2,071,569	2,287,410
	₩ 2,287,772	₩ 2,287,772

<sup>1</sup> Trust accounts whose principal or fixed rate of return are guaranteed.

Significant transactions with related parties for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)	
	Revenues	Expenses <sup>2</sup>
Parent Company		
KB Financial Group Inc.	₩ 1,287	₩ 138
Subsidiaries		
Kookmin Bank	68,239	62,843
KB Investment & Securities., Ltd.	1,249	909
KB Life Insurance Co., Ltd.	2	23,377
KB Asset Management Co., Ltd.	2,983	341
KB Real Estate Trust Co., Ltd.	18	834
KB Investment Co., Ltd.	16	442
KB Futures Co., Ltd.	974	16
KB Credit Information Co., Ltd.	26,281	143
KB Data Systems Co., Ltd.	24,080	-
Trust accounts <sup>1</sup>	4,960	11,335
Kookmin Bank International Ltd.(London)	1,591	11,366
Kookmin Bank HongKong Ltd.	-	19,936
	130,393	131,542
	₩ 131,680	₩ 131,680

<sup>1</sup> Trust accounts whose principal or fixed rate of return are guaranteed.

<sup>2</sup> Excludes bad debt expense.

In addition, fixed assets which were acquired from KB Data Systems Co., Ltd. during the period ended December 31, 2008, amount to ₩ 61,502 million.

## 27. Supplemental Cash Flows Information

The cash flows from operating activities in the statement of cash flows are presented using the indirect method.

The cash and due from banks in the statement of cash flows for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Cash and checks	₩	2,190,748
Foreign currencies		272,521
Due from banks		5,852,928
		8,316,197
Restricted due from banks		(4,935,604)
	₩	3,380,593

Significant transactions not involving cash inflows and outflows for the period ended December 31, 2008, are as follows:

	(In millions of Korean won)	
	2008	
Decrease in loans receivable from written off and the exemption of loans	₩	755,297
Increase in accumulated other comprehensive income from valuation of securities		193,205
Increase in accumulated other comprehensive income from revaluation of property and equipment		893,856
Transfer of construction in-progress asset		134,043

# Overseas Network

## Company Directory

**KB FGI Head Office**  
9-1, 2-ga, Namdaemun-ro,  
Jung-gu, Seoul 100-703, Korea  
Tel: (82-2) 2073-7114  
Swift Code: CZNBKRSE  
Telex:K23481, K26109  
Call Center: (82) 1588-9999

**IR(Investor Relations)**  
9-1, 2-ga, Namdaemun-ro,  
Jung-gu, Seoul 100-703, Korea  
Tel: (82-2) 2073-2869  
Fax: (82-2) 2073-2848  
E-mail: kbir@kbfng.com

**Global Business (Kookmin Bank)**  
13th Fl. Kookmin Bank Building  
9-1, 2-ga, Namdaemun-ro,  
Jung-gu, Seoul 100-703, Korea  
Tel: (82-2) 2073-3251  
Fax: (82-2) 2073-8140

## Transfer Agent and Register

**Common Share**  
Korea Exchange: 105560  
Kookmin Bank Securities Agency  
Business Dept.  
34, Yoido-dong, Youngdeungpo-gu,  
Seoul 150-758, Korea  
Tel: (82-2) 2073-8120  
Fax: (82-2) 2073-8111

**American Depository Receipts (ADRs)**  
New York Stock Exchange: KB  
Citibank, N.A. Depository  
Receipts Department  
388 Greenwich Street,  
New York, New York 10013  
Tel: (1-212) 816-6859  
Fax: (1-212) 816-6865

## Overseas Network

**Guangzhou, China**  
Guangzho Room 4602-3, Office building,  
CITIC PLAZA 233 Tianhe N. Road  
Guangzhou, China  
Tel: (86-20) 3877-0566  
Fax: (86-20) 3877-0569  
Swift Code: CZNBCN22

**Auckland, New Zealand**  
Level 19, 135 Albert Streets PO BOX 7506  
Wellesley, Auckland, New Zealand  
Tel: (64-9) 366-1000  
Fax: (64-9) 366-6608  
Swift Code: CZNBZ2A  
E-mail: auckland@kbstar.co.kr

**Kiev, Ukraine**  
20, Velyka Zhytomyrska Street  
Kiev, Ukraine  
Tel: (38-044) 201-4755  
Fax: (38-044) 201-4764

**Hong Kong, China**  
19/F., Gloucester Tower 11 Pedder Street  
Central, Hong Kong, China  
Tel: (85-2) 2530-3633  
Fax: (85-2) 2869-6650  
Swift Code: KHBKHKHH  
E-mail: kookmin@hkstar.com

**New York, U.S.A.**  
565 Fifth Ave. 46th street, 24th Floor,  
New York, NY 10017 USA  
Tel: (1-212) 697-6100  
Fax: (1-212) 697-1456  
Swift Code: CZNBUS33  
E-mail: kbstarny@kmbny.com

**KB Investment & Securities Hong Kong Ltd.**  
Suite 2907-2908, Two Exchange Square,  
8 Connaught Place, Central, Hong Kong  
Tel: (85-2) 2805-0690

**London, United Kingdom**  
6th floor, Princes Court, 7 Princes Street,  
London EC2R 8AQ, U.K.  
Tel: (44-207) 710-8300  
Fax: (44-207) 726-2808  
Swift Code: CZNBGB2L  
E-mail: kbil@kookmin.co.uk

**Almaty, Kazakhstan**  
19 Al-Farabi Ave., Almaty Business center  
Nurly Tau 2B,office No.901  
Tel: (7-727) 311-0347  
Fax: (7-727) 311-0351

**Tokyo, Japan**  
Yurakucho Denki Bldg. -N, 14F, 1-7-1  
Yurakucho, Chiyoda-ku Tokyo 100 Japan  
Tel: (81-3) 3201-3411  
Fax: (81-3) 3201-3410  
Swift Code: CZNBJPJT  
E-mail: tokyo@kbstar.co.kr

**Hochiminh City, Vietnam**  
1709A,17th Floor Saigon Trade Center,  
Ton Duc Thang 37, Ben Nghe Ward,  
Hochiminh, Vietnam  
Tel: (84-8) 3910-7058  
Fax: (84-8) 3910-7059

# Forward Looking Statements

This document contains forward-looking statements. Words and phrases such as “will,” “aim,” “will likely result,” “will continue,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify with 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.

The factors that could cause actual results to differ include, but are not limited to, the following:

- KB Financial Group’s ability to successfully implement its strategy;
- future levels of non-performing loans;
- KB Financial Group’s growth and expansion;
- adequacy of allowance for credit and investment losses;
- technological changes;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- KB Financial Group’s 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 KB Financial Group’s income or results of operations could materially differ from those that have been estimated.

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

- general economic and political conditions in Korea or other countries that have an impact on KB Financial Group’s business activities or investments;
- Korea’s monetary and interest rate policies;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- performance of the financial markets in Korea and internationally;
- 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.

KB Financial Group cautions the reader not to place undue reliance on the forward-looking statements, which speak only as of the date of this document. 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 KB Financial Group or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this document.



9-1, 2-ga, Namdaemun-ro, Jung-gu, Seoul 100-703, Korea  
Tel: (822) 2073-7114  
[www.kbfng.com](http://www.kbfng.com)

