



Smart Moves

**Annual Report
2012**

 **KB Financial Group**

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**KB Financial Group
is Korea's premier
financial institution with
a comprehensive line-up
of products and services
ranging from banking to
IT system development**

Established in 2008 with the nation's foremost business foundation in assets, customer base, and distribution network, the Group pursues preeminence in the financial services industry through its nine subsidiaries. By increasing synergies among these subsidiaries, the Group is able to bolster its core competencies in banking, credit card, securities, insurance, and asset management, while continuing to improve upon its comprehensive financial system. In particular, the Group is focused on strengthening the capabilities of its non-bank subsidiaries by leveraging group synergies in line with its vision, "A Global Financial Group, Leading the Asian Financial Industry."

By delivering the best customer value, the Group progresses towards "Global Financial Group Leading the Asian Financial Industry" while steadfastly serving its shareholders and customers.

Group at a Glance

KB Financial Group will realize its vision of becoming a global financial group by combining the expertise of its affiliates with its shared value, “We Think of You First”

*b KB Kookmin Bank



KB Kookmin Bank leads Korea's banking industry with an aim to become “global bank leading the Asian financial industry” while growing into one of “Asia's top 10 and the world's top 50.” The Bank endeavors to offer the best possible products and services at all times. It intends to grow alongside its customers and community by keeping its business operations more customer-focused, delivering stable financial performances, nurturing sustainable growth drivers from their earliest stages, and setting an example in corporate citizenship.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	257,748.7
Total Shareholders' Equity	19,957.6
Net Income	1,415.8

* As of December 31, 2012

*b KB Life Insurance



KB Life Insurance was established as bancassurance specialist in June 2004, and the Company became a full member of KB Financial Group in August 2009. It excels in the bancassurance business by leveraging KB Kookmin Bank's nationwide branch network along with the advanced insurance expertise gained through its partnership with ING Group. Through bancassurance agency marketing, direct marketing channels as well as a total consultant channel which provides face-to-face service, KB Life Insurance offers financial insurance services that are comprehensive and tailored to customer needs.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	5,987.9
Total Shareholders' Equity	393.2
Net Income	16.6

* As of December 31, 2012

*b KB Investment



KB Investment supports the growth of enterprises through capital investments. The company's investment targets include non-listed venture firms and SMEs, companies engaging in restructuring business, and corporations seeking M&A funds. In addition to supporting the growth of its investment targets, KB Investment provides business support services in key management aspects – personnel management, finance, marketing, and business strategy including listing on the KOSDAQ – all to enhance the value of its investments.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	504.5
Total Shareholders' Equity	123.4
Net Income	5.5

* As of December 31, 2012

*b KB Credit Information



KB Credit Information specializes in managing unpaid receivables. The Company was founded in 1999 to manage the collection of unpaid receivables of KB Financial Group's subsidiaries. It is the industry leader in asset size, profitability, and service quality. By efficiently handling unpaid receivables, KB Credit Information contributes to the circulation of financial transactions, a vital component to economic growth as well as to the establishment of a sound credit-based society.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	30.4
Total Shareholders' Equity	22.8
Net Income	0.3

* As of December 31, 2012

KB Kookmin Card



KB Kookmin Card is a specialized card company focused on making people's daily lives easy and convenient. Spun-off from KB Kookmin Bank in March, 2011, the Company has been achieving steady growth by focusing on four strategic initiatives: establishing a customer-oriented marketing system, optimizing the risk management system, securing leadership in new markets, and retooling internal systems with an emphasis on profitability. Its contributions to improving customer lives have started to pay off: the Company was ranked first in the credit card category in the 2012 NCSI, the nation's most prestigious customer survey.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	14,046.2
Total Shareholders' Equity	3,079.6
Net Income	291.6

* As of December 31, 2012

KB Investment & Securities



KB Investment & Securities provides a full range of financial services including wholesale banking, asset management, investment advice, and brokerage. It endeavors to become a true financial partner for the success of each and every one of its customers, who form the core of its values. A member of KB Financial Group since March 2008, KB Investment & Securities continues to thrive based on its competitive edge in the wholesale business and on the Group's extensive financial network.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	3,357.2
Total Shareholders' Equity	545.1
Net Income	18.7

* As of December 31, 2012

KB Asset Management



KB Asset Management prides on its extensive product line-up encompassing equities, fixed income, derivatives, commodities, real estate and infrastructure. While continuously improving the management competency, the Company has generated optimal returns for clients by consistently maintaining best-in-class performance and leading on global standard for risk management. Fast emerging as an industry leader, the Company was awarded with the Best Asset Management Company from the "2012 Korea Securities Awards."

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	164.6
Total Shareholders' Equity	127.0
Net Income	35.9

* As of December 31, 2012

KB Real Estate Trust



KB Real Estate Trust manages real estate on consignment and returns to the owners the revenues thus generated. Major products offered include land development trust, collateral trust, management trust, disposal trust, administration support, REITs, and AMC. Wholly-owned by KB Financial Group, KB Real Estate Trust enjoys stable credit ratings. It is building on its foundation of a sound balance sheet for sustainable growth in an effort to realize its vision of becoming Korea's best in the real estate trust business.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	201.6
Total Shareholders' Equity	166.2
Net Income	21.4

* As of December 31, 2012

KB Data Systems



KB Data Systems is a pioneer of Korea's financial IT. Since its founding in 1991, KB Data Systems has played a crucial role in KB Financial Group's growth by facilitating smooth systems integrations in the Group's incorporation of a number of M&As. Leveraging the experience and know-how accumulated from the various financial IT projects it has undertaken over the years, the Company tailors its advanced IT systems to the rapidly evolving needs of financial companies as well as of its KB affiliates.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	25.5
Total Shareholders' Equity	14.8
Net Income	-1.5

* As of December 31, 2012

KB Savings Bank

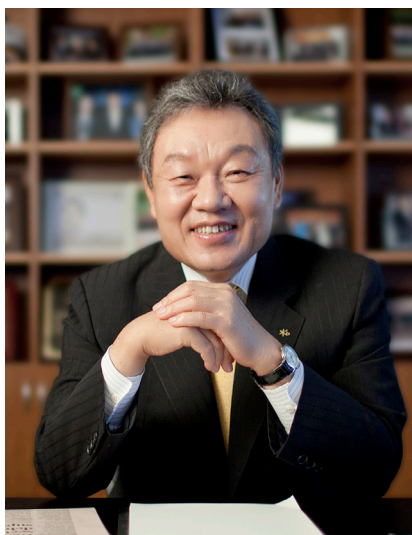


KB Savings Bank was established as the tenth subsidiary of KB Financial Group in January 2012. Its main business areas include loan services, such as general loans and discounting of bills, and deposit-taking, such as time deposits and installment savings. By embodying the basics of "clean bank", KB Savings Bank contributes to the stability of the banking sector dedicated to low-income households and small businesses by offering financial products and services tailored to their needs, thus fulfilling the fundamental role of savings banks.

Key Financial Indicators	(Unit: KRW in billions)
Total Assets	646.7
Total Shareholders' Equity	136.4
Net Income	-34.9

* As of December 31, 2012

CEO's Message



Dear valued shareholders and customers,

Last Year the world economy remained subdued amid the fallouts of the global financial crisis as the Eurozone crisis lingered, developed economies faltered, and the growth of emerging markets slowed.

The Korean economy could not stay immune to these effects either, ending the year with 2% in growth, its lowest since the Asian financial crisis in 1999. In the face of these challenges, all of us at KB Financial Group strove to the best of our abilities to strengthen the Group's business lines.

We stayed at the forefront of key developments in the industry. KB Kookmin Bank became the industry's first to attract more than 5 million smart-banking customers. It also maintained a leading position in investment banking and was selected as the treasury bank for five municipalities.

The Bank outperformed its peers through innovative products and services: namely, "KB Rock Star," a branch channel tailored to youth customers, and "KB Hidden Star 500," a program to foster sound small and medium-sized companies. Moreover, the Bank led the wealth management service sector with "KB Golden Life Service" and "KB Real Estate R-easy Service". Meanwhile, the Bank established a subsidiary in China and a branch in Osaka, Japan as part of its strategy to secure global competitiveness.

In the non-banking business, we further strengthened the foundation for sustainable growth against a backdrop of intensifying competition and deteriorating profitability. KB Kookmin Card maintained its No. 1 position in the check card business; KB Investment & Securities continued its unrivalled market leadership in underwriting; KB Life

Facing daunting challenges, KB Financial Group stayed at the forefront setting records and leading change in 2012

Insurance reached KRW 5 trillion in total assets; and KB Asset Management achieved the industry's highest return rate. These triumphs are attributable to the subsidiaries' sustainable efforts to "Change and Innovate."

We actively carried out various social contribution programs as a caring corporate citizen. Some of these programs include financial support for low-income customers, economics and financial education, and promotion of "KB Goodjob," a job program linking employers and job seekers.

In recognition for these efforts, the Bank was ranked first in the NCSI, Korea's most prestigious customer survey, for the seventh consecutive year and KB Kookmin Card received the top score in the credit card sector. The Group also enjoyed the highest brand recognition among financial companies in Korea.

Meanwhile, the Group increased its total assets by KRW 4.4 trillion during 2012 to KRW 282.0 trillion. Of this amount, total loans were KRW 212.7 trillion, an increase of KRW 0.6 trillion. Deposits increased by KRW 4.1 trillion to KRW 194.4 trillion while borrowings and debentures combined decreased by KRW 3.8 trillion to KRW 40.1 trillion. The general preference of banking customers for safe assets and the Group's continued focus on its loan-to-deposit

ratio played big roles in increasing deposits and decreasing borrowings.

In asset quality, we took a number of pre-emptive measures to address growing concerns over household debt while sustaining our bad debt reduction efforts. As a result, the Group's overall NPL ratio decreased by 0.04%p over the year to 1.40%, while the NPL coverage ratio rose by 7.14%p to 170.54%.

Operating income before provisions decreased by KRW 892.1 billion to KRW 4,019.2 billion while net income decreased by KRW 670.1 billion to KRW 1,702.9 billion due mostly to downward market interest rates and increased losses on securities. Meantime, our efforts to diversify the Group's business portfolio through acquisition of ING Life Korea did not bear satisfactory results.

We are very conscious that we could not fully leverage the growth and business diversification opportunities, and I express a sincere regret in that regard. This year we will do our utmost to deliver performances that will be meaningful and satisfactory to all of our shareholders.

At the start of each year, we forecast the new year to be challenging; but given the current business environment at home and abroad, the year 2013 is expected to be particularly difficult compared with the past several. The on-going Eurozone crisis and slowing emerging markets are fueling uncertainty throughout the world, raising the possibility of a long-term stagnation.

Facing such challenges on the horizon, we resolve to focus our attention and resources on strengthening inner values and enhancing customer trust. This objective is in line with our mid-to-long term strategy of “Maximizing profitability through value-focused growth.”

In the midst of persisting economic uncertainty and a new government taking shape, demand has intensified for active social roles and higher ethical standards for financial institutions. With these daunting obstacles in place, we feel all the more compelled to concentrate on our new management objective, “Stronger Inner Value and Higher Customer Trust.” We will undertake the following four tasks to execute this goal efficiently.

First, we will devote our foremost attention to producing consistent financial performances and bolstering risk management. We will concentrate on managing the financial performance of each and every one of our subsidiaries to better control high-cost products and marketing expenses, optimizing investments through the select-and-focus approach, and realizing stable profit flows through sound asset growth and NIM management. In addition, we will establish an integrated risk management system at the Group level and take decisive actions to reduce household debts.

Second, we will hone our competitive edge by reinforcing our core business lines and expanding the base for new growth engine. We will continue to expand the customer base by strengthening our core business areas such as retail banking and credit card where we excel by far, and by adopting innovative marketing approaches that better appeal to blue chip corporations and promising new companies. In addition, we will bolster our smart-banking capabilities, asset management services, overseas businesses, and other new-growth businesses underpinning the Group’s future competitiveness.

We will unite our forces in taking on the coming challenges and turning them into opportunities to grow into a leading financial group

Third, we will earn more trust from our customers by staying committed to our social role and the principles of management. We believe customer trust is our most valuable asset. We have worked hard for customer trust through various efforts carried out under our slogan of “We Think of You First.” With our focus on customer trust and social respect, we will actively take part in resolving household debt issue, offer financial support to low-income customers, and protect customer rights.

Lastly, we will take all measures necessary to strengthen the Group's long-term competitiveness. By listening to shareholders and board members, we will seek out ways to diversify the Group's business portfolio and develop additional sources of income. We will offer our employees continuous training and development opportunities and prepare talented individuals for key roles in the Group. We will continue to pursue change and innovation from the bottom and promote our corporate culture based on the KB spirit to pursue “customer focus, professionalism, creativity, speed, and performance.”

By executing these tasks outlined above, all of us will deliver a financial performance worthy of the support and expectations of our shareholders.

The year 2013 is expected to be a year of exceptional challenge. However, like the saying, “Behind every moving cloud awaits a clear blue sky,” we will unite our forces in taking on the coming challenges and turning them into opportunities to grow into a leading financial group.

I would like to express my deepest gratitude to all of our shareholders and customers for their continued support and encouragement. On behalf of everyone at KB Financial Group, I wish you and your loved ones health and prosperity.

Thank you.

Yoon-Dae Euh

Chairman & CEO
KB Financial Group Inc.

2012 Highlights

KB Financial Group is laying the foundation for its future competitiveness by cultivating its achievements today into sustainable growth for tomorrow

KB Financial Group

Group Competitiveness Strengthened and Diversified

KB Financial Group maintains strong leadership in many financial areas, including retail banking, retirement pension, and check card. In 2012, the Group increased its dominance in key markets and honed its competitiveness in the non-banking financial sector. These actions have diversified the Group's income sources, improved the efficiency of its operations, and stabilized its profit base. KB Kookmin Card ranked first in the check card market, KB Investment & Securities increased its dominance in wholesale banking, and KB Life Insurance exceeded KRW 5 trillion in total assets, to name but a few of the Group's achievements. Despite difficult market conditions, KB Asset Management recorded stable rates of return, and KB Savings Bank established a competitive position in the market. These accomplishments are the evidence of KB Financial Group's continuous efforts to build a strong foundation for sustainable growth.

KB Kookmin Bank

Strengthening Reputation as Korea's Leading Bank

In 2012, KB Kookmin Bank focused on "Change and Innovation" as part of its vision of becoming a "global bank that leads the Asian financial industry" and strengthened its stature as Korea's leading bank. In retail banking, an area where it excels by far, the Bank further reinforced its competitiveness by opening multiple specialty branches to better accommodate changing customer needs and lifecycles. In the field of asset management, KB Kookmin Bank bolstered its customized, comprehensive asset management system by launching "STARTABLE," an asset management brand, opening a "Star PB Center," and offering a "KB Golden Life" service. Notably, KB Kookmin Bank established itself as a leader in smart-banking by becoming the first bank to attract more than 5 million smart-banking customers.

KB Kookmin Card

Building a Customer Value-Oriented System

Placing its highest priority on customer value, in 2012 KB Kookmin Card took innovative steps towards enhancing customer satisfaction. To render its operations more customer-focused, the Company adopted a number of creative measures to put greater emphasis on customer service while exploring many ways to

develop products and services tailored to customers' needs. These efforts led to tangible results, including the Company's No. 1 positions in the check card market as well as in various customer satisfaction indices.

KB Investment & Securities

Enhancing Stature as Leader in Underwriting Corporate Bonds

KB Investment & Securities ranked No. 1 for the past two consecutive years in the Bloomberg tally of the domestic corporate bond issuance market. It launched a new online brand, "KB Smartalk," to offer high-quality stock trading services. Furthermore, the Company became the first in the securities industry to launch a stock trading application for smartphone users, thus taking the lead in the high-growth potential MTS market. Meanwhile, it steadily increased its number of branches reaching ten at the end of 2012. Therefore, KB Investment & Securities is increasing its market dominance and competitiveness in both online and offline markets.

KB Asset Management

Flagship Fund Ranks No. 1 in Return Rate

KB Asset Management's flagship fund, "KB Value-Focus Fund," ranked No. 1 among domestic equity funds in return rate for the three years since its release in 2009. It became the industry's leading fund by achieving the most outstanding long-term performance. "KB Mid Small-cap Securities Master Fund," another of the Company's flagship funds, posted an annual return rate of 36.15% in 2012 and maintains the No. 1 position in the less-than-a-year yield rate. "KB Growth Focus Fund," a growth fund, ranks among the top 5% in the five-year yield rate category.

KB Investment

Achieving Substantial Growth in AUM

In 2012 alone, KB Investment took part in the KoFC-POSCO-Hanwha-KB Joint Growth PEF worth KRW 200 billion, the KoFC Value Up PEF amounting to KRW 65 billion, the KT Global Investment Partnership PEF totaling KRW 475 billion, and formed the KB12-1 Venture Fund worth KRW 50 billion. As a result, the Company's total AUM went up by a whopping KRW 790 billion from the previous year to reach KRW 1,425 billion as of the end of 2012. KB Investment is assuming leadership in the venture investment and PE investment markets.

2012 Awards & Recognitions

KB Financial Group's efforts to shape a better future for finance garnered various awards. The Group and its affiliates together received 226 awards in 2012

KB Financial Group

Best Company in Corporate Governance

KB Financial Group received the Grand Prize at the 2012 Transparent Management Awards hosted by the Korean Accounting Association and the Korean Institute of Certified Public Accountants. The award was in recognition of the Group's maintenance of the highest level of transparency in management among the listed companies in Korea. The Group also received the 2012 "Excellent Company Award in Corporate Governance" from the Corporate Governance Service. Additionally, the Group made the DJSI Asia Pacific and Korea Index for a fourth consecutive year, confirming its international standards in management transparency and business sustainability. These awards have strengthened further the market leadership of KB Financial Group and enhanced its brand value. In fact, "KB" was the most recognized brand in 2012 in the financial industry as the Group received the "Most-Popular-Brand-of-the-Year" award and was selected by 1,000 college students across the nation as the best place to work for.

KB Kookmin Bank

Best Bank in Customer Satisfaction

KB Kookmin Bank became the first in the industry to rank No. 1 for a seventh year in a row in the banking category of the prestigious NCSI (National Customer Satisfaction Index). It also took first place for a sixth consecutive year in the banking category of the KCSI (Korean Customer Satisfaction Index). The recognitions are reaffirmations of the Bank's unrivaled leadership in customer satisfaction. The Bank's excellence in customer satisfaction extended to its business realm as well. It received the highest credit ratings among Korea's commercial banks from Moody's, S&P, and Fitch, the troika in the world of credit rating. It was chosen as "Korea's best export and import finance bank" for a second consecutive year by 'Trade Finance', which is owned and run by Euromoney in UK. These accolades make it clear that the Bank is well on its way towards becoming a global financial institution leading Asian financial industry.

KB Investment & Securities

Certified as Leader in DCM

KB Investment & Securities received the "Best Straight Bond House Award" at the 2011 thebell League Table Awards in January 2012, followed by the "Best Award" in the bonds category from Asia Business Daily. The Company thus reinforced its leadership position in DCM. The Company's CEO received the "This Year's CEO" award in the communication management category from the Joongang Monthly and another CEO award in the trust-based management category from the Korea Economic Daily.

KB Life Insurance

Best Customer Service

KB Life Insurance ranked No. 1 for the seventh consecutive year in the call center category of KSQI (Korean Service Quality Index). KSQI is based on customer evaluations of the quality of call center services, and is an important barometer of the competitiveness and potential success of businesses that rely heavily on customer satisfaction. Call centers play an important role in the increasingly competitive world of the life insurance business. The Company also maintained the top rating for four consecutive years in the Financial Supervisory Service's annual survey of life insurance-related civil complaints.

KB Asset Management

Emerged as Best Asset Management Company

KB Asset Management received the Grand Prize in the asset manager category of the "2012 Securities Awards of Seoul Economic Daily." In addition to this recognition for its outstanding management capabilities, the Company received many other awards, including the Best Domestic Small- to Mid-Sized Fund Award of the "2012 Herald Business Fund Awards," Best Domestic Equity Fund Award of the "2012 Money Today Fund Awards," and the Gold Prize in the asset management category of the Maeil Economic Daily's "2012 Securities Man Awards."

Vision & Strategies

By pursuing customer value-focused innovation based on clear objectives and strategic plan, KB Financial Group will continue its march towards “Global Financial Group Leading the Asian Financial Industry”

Group Vision & Core Strategies

KB Financial Group has set “maximizing profitability through stable growth” as its mid- to long-term strategic direction in its path towards realizing its vision of becoming a “global financial group leading Asian financial industry” and to accomplish its management goal of becoming one of “Asia’s top 10 and the world’s top 50.” The Group is implementing eight major strategic initiatives – optimized bank portfolio, diversified non-banking services, firm global business foundation, pursuit of M&As, competitive asset management services, diversified distribution channels, sound risk management, and comprehensive performance-based HR system.

Specifically, the Group will strengthen its market dominance in retail banking while bolstering its competitiveness in wholesale banking in order to optimize its banking business portfolio. As for its non-banking sector, it aims to bring the sector’s share to 30% of its total income through selective diversification and synergy maximization. Expansion of the global network and other efforts are planned as part of its long-term strategy to secure international competitiveness beyond its dominance in domestic market. To overcome the limits of organic growth, the Group will continue to explore M&A opportunities that are rational and realistic given the market conditions and the Group’s fundamentals. It will shift from the current sales-centered business approach to consulting-based asset management services. To further solidify its market dominance, the Group will build a network of complementary diverse channels, including that of smart-banking. Moreover, the Group will pursue preemptive risk management in earnest by building an integrated risk system at the group level and adopting advanced risk monitoring techniques. Lastly, by upgrading its performance-based HR system, the Group will attract and foster financial experts in various areas.

Against the backdrop of increasing competition in the Korean financial market, KB Financial Group will actively make inroads into strategically important overseas markets and build the foundation for sustainable presence in the global market.

2012 Management Strategies & Results

The Year 2012 saw a number of challenges both at home and abroad, including the global financial crisis, intensifying competition, and a transfer of government administration, to name a few. In the backdrop of such unsettling business conditions, KB Financial Group set “maximizing management efficiency through enhanced productivity” as its strategic management direction for 2012, and took the following four major initiatives:

First, the Group focused on increasing the productivity of its business operations and fostering a performance-oriented culture. Changes and innovations were continually adopted to form a basis for stable profit generation. As a result, the Group successfully improved its management fundamentals, leading to increases in management efficiency and business productivity. We also made progress towards empowering a performance-based culture that is rational and fair, such as the introduction of “Sales Star Mileage.”

Second, the Group adopted a number of advanced preemptive risk management measures. The Group maintained its asset quality at a stable level by strengthening its ERM system and asset quality controls. The Group also developed regulation index and other measures to effectively respond to the Basel III and other regulatory changes.

Third, the Group further improved its synergy creation and marketing capabilities. Through trend-setting services, including “KB Rock Star” and “KB Hidden Star,” the Group enhanced its brand value in a unique and innovative manner. “KB Golden Life Service” was launched as part of the marketing strategies to keep pace with a rapidly aging society as well as to strengthen the Group’s key customer base. As a result, KB Kookmin Bank became the first in the banking industry to place first in Korea’s foremost customer survey for an unprecedented seventh year in a row.

Lastly, the Group strengthened its market position in the non-banking businesses. KB Kookmin Card ranked first for two consecutive years in the check card market, and KB Investment & Securities came in first for the second straight year in underwriting corporate bond. The Group further sustained its growth in the non-banking sector by developing new-growth businesses. As a result, the Group became the first in the financial industry to surpass the 5 million mark in the number of smart-banking customers. Moreover, the Group unveiled “KB Real Estate R-easy Service,” a comprehensive asset management service for real estate owners looking for higher returns on their properties.

2013 Strategic Business Direction

In 2013, KB Financial Group will focus on strengthening inner values and enhancing customer trust. The on-going Eurozone debt crisis is fueling economic uncertainty throughout the world, while there are stronger voices for financial institutions to take on greater social responsibilities and practice more stringent ethical standards. Against this backdrop, KB Financial Group will endeavor to sustain its growth by being committed to its basic principle of management: “stronger inner values and more customer trust.” To

stay fully true to this principal, the Group will execute the following four key initiatives:

First, the Group will pursue stable financial performance. It will explore ways to deliver stable income and cut costs, including a select-and-focus investment approach and cost management of high-cost products and marketing expenses. Moreover, the Group will institute an integrated risk management system at the group level and take more proactive steps to nip in the bud a growing national household debt issue.

Second, the Group will fortify the foundation for growth. It will increase its dominance of key markets including retail banking and credit card. To expand its prime customer base, it will channel marketing efforts and resources towards blue-chip corporations and promising companies. Furthermore, it will strengthen the foundation for new-growth businesses to ensure its future competitiveness.

Third, the Group will enhance customer loyalty. To gain more trust from customers as well as from society, it will strengthen its corporate citizenship by practicing management-by-principle, making contributions to solve the housing debt issue and supporting the low-income-class banking sector. To this end, it will continue to adopt systems and processes based on customer needs and interests.

Lastly, the Group will strengthen its future competencies. To bolster its organizational competitiveness, it will shape its structural operation to become more customer-focused and synergy-based. It will secure talent comparable to certified financial consultants in job expertise and competency to enhance its HR competitiveness. Furthermore, the Group will continue to promote voluntary change and innovation at the branch level, encouraging employees at all levels of the organization to take initiatives and foster a corporate culture compatible with the KB spirit.

Strategic Direction by Business

Banking

While the banking industry is expected to run into a number of challenges that could affect growth, profitability and asset quality, demand for bigger roles in society will continue to grow. Accordingly, KB Kookmin Bank set “strengthening sustainable management based on fundamentals and principles” as its strategic management direction in 2013. While pursuing change and innovation within its operations, the Bank will promote co-prosperity and cooperation with society. It will build a sustainable management system that can operate proactively even in a crisis situation by implementing four

key initiatives– strengthen social responsibilities, maintain stable financial performances, enhance the customer-centered operating system, and develop future growth drivers.

Credit Card

In 2013 tougher consumer-protection laws and industry regulations are expected, further constricting the credit card market. In response, credit card companies are likely to take active steps towards strengthening their profit bases and developing new markets. Accordingly, KB Kookmin Card has defined its strategic management direction for 2013 as “overcoming crises by strengthening the profit base.” To this end, the Company will enhance its marketing efficiency through detailed customer analysis, expand the base for future profit generation, and optimize the risk management system. It also will fulfill its social responsibilities by actively engaging in community service activities as well as those aimed at protecting the rights and interests of customers.

Securities

The current sluggish trading environment is expected to continue for a protracted period, along with anticipation and anxiety fueled by political changes taking shape and the mounting economic uncertainty. In the backdrop of such expectations, KB Investment & Securities will further bolster its competitiveness in its key business areas, including wholesale banking and corporate sales. It also will strive to provide cutting-edge securities services in the retail sector by strengthening its mobile business base, building a sales infrastructure based on the Group’s extensive distribution network, and strengthening its HR power by scouting first-rate experts.

Life Insurance

The life insurance market is likely to face a host of difficulties in 2013 as it enters the maturity phase, with insurance companies engaging in fierce competition in pursuit of bigger market shares, combined with more stringent regulations. To overcome these difficulties, KB Life Insurance will revamp its dedicated channels and build up a stable growth base, continuously upgrading its channel portfolio to strengthen its stature as a comprehensive insurance company. It will manage its long-term financial health by implementing profitability-based product sales strategies, diversifying asset management, and revamping risk management. KB Life Insurance will persist in offering products that stand out among the competition and engage in customer-oriented marketing to win the hearts and minds of its customers.

Asset Management

The looming uncertainty fanned by the on-going Eurozone debt crisis, the continued sluggishness in the domestic real estate market, increasing regulations, and intensifying competition are some of what makes 2013 an exceptionally challenging year for asset management. Accordingly, KB Asset Management will strive to maintain its stable rates of return with a renewed focus on equity funds, one of its key strengths. It will develop flagship funds that can lead the market. The Company will devote more resources to promoting its long-term funds, equity-linked life insurance products, and ETFs and develop them into growth drivers. Moreover, it will continue to diversify its sales channels by actively exploring all options available.

Global Business

Facing the limits of the increasingly competitive domestic financial market and the needs to sustain healthy growth, KB Financial Group is compelled to make active inroads into overseas markets that offer great growth potential as well as a competitive advantage for the Group in the global market. To effectively take advantage of these markets, the Group will use its domestic strengths to build up a strong basis for developing global competitiveness. In order to secure a viable business foundation overseas, it will seek M&A opportunities and establish a network in major strategic markets.

Organizational Chang

KB Financial Group is bolstering its competitive edge by continually overhauling its organization and pursuing seamless cooperation between its banking and non-banking affiliates. As part of its efforts to enhance the competitiveness of its non-banking sector, the Group spun off KB Kookmin Bank's credit card division in March 2011 to create KB Kookmin Card, resulting in increased competitiveness for the Group's credit card business. KB Investment & Securities merged with KB Futures as a proactive response to changes expected in the financial environment following the introduction of the Capital Markets Act of 2011 and bolstering the competitiveness of the financial investments sector. KB Savings Bank was established in January 2012 to promote the stability of the low-income-class banking sector.

The holding company of KB Financial Group serves as the corporate center, supervising the entire organization. Major changes to the holding company's organization include the appointment of a new CRO in July 2011 to strengthen independence and expertise in risk management. CSR & Culture Management Department was created in January 2012 to enhance social contribution activities at the group level.

Senior Management

Yoon-Dae Euh

Chairman & CEO

Young-Rok Lim

President

Jong-Kyoo Yoon

Deputy President & CFO

Wang-Ky Kim

Deputy President & CPRO

Seok-Heung Ryu

Deputy President & CIO

Min-Ho Lee

Deputy President & CCO

Won-Keun Yang

Deputy President

Dong Chang Park

Deputy President

Yong-Jin Cho

Managing Director & CHRO

Kyung-Sup Han

Managing Director & CRO

Dong-Cheol Lee

Managing Director

Kyu Sul Choi

Managing Director

Synergy Creation

Synergy creation drives KB Financial Group's continued growth, harnessing energies for the Group to enhance its corporate value as well as customer satisfaction

Strategic Direction

The first step of KB Financial Group in creating synergy is to build a platform for synergy creation. The next step focuses on broadening the scope of synergy creation and strengthening synergy competencies. The third step is to maximize the combined effect of the synergies employed in business operations.

2012 Performance

The basic direction for KB Financial Group's 2012 synergy creation strategy was to "maximize the Group's synergies and marketing capabilities by offering top-notch, comprehensive financial services." Specifically, the Group focused on solidifying the customer base, bolstering the competitiveness of products and services, and taking initiatives in smart-banking.

Group Customer Base Solidified

For better utilization of its customer database, the Group upgraded the CRM system and thus enabled its affiliates to generate more detailed customer analyses. The upgraded CRM system provides the affiliates with tools and information to identify potential customers and targets for cross-selling. In addition to the expansion of the BIB (Branch In Branch) system applied to KB Kookmin Bank and KB Investment & Securities, the Group created in 2012 a BWB (Branch With Branch) system to bolster the competitiveness of its securities operations.

Product and Service Competitiveness Enhanced

In April 2012, KB Financial Group rolled out an ambitious hybrid product, "Time Deposit Plus KB Fund." This is the Group's fifth multi-product that caters to customers who want the stable income guaranteed by time deposits combined with the extra income that funds can offer. In the service area, the Group featured "KB Golden Life" to establish a comprehensive customer asset management system at the group level. The Group also raised the concept of customer-tailored service by a notch by introducing "R-easy," a real estate related total asset management service that covers the entire lifecycle of real estate, from pre-purchase market search to management to liquidation.

In May 2012, "KB Financial Wealth Management Festival Together with Star Table" was held in Seoul. With participation by KB Kookmin Bank, KB Kookmin Card, KB Investment & Securities, KB Life Insurance, and KB Asset Management, the festival served to promote the Group's brand power in wealth management services.

Securing Leadership in Smart-Banking

The number of customers using "KB Star Banking," a smartphone banking service, exceeded 5 million in October 2012. This service was the first of its kind to break this important industry milestone. The Group also rolled out "KB Talking Installment Savings," which was well received by customers for its use of an endearing interactive character. In addition, the Group opened Smart Branch No. 1, a new-concept branch model, and released an integrated smartphone application to help customers use the Group's various financial services with ease and convenience.

2013 Plans

The basic direction for KB Financial Group's synergy creation strategy 10 2013 is "maximizing the Group's synergy effects through balanced growth among affiliates." Towards this end, KB Financial Group plans to focus on the following tasks:

Maximizing Synergy

To strengthen cooperation among its affiliates, the Group will adopt ways in which the affiliates collectively can identify any potential sources of synergy. The Group will effectively utilize its purchasing power to create synergy in saving on costs.

Generating Group CRM-based Synergies

The Group will rely on its CRM system to conduct customer analysis at the group level and use any information thus generated to identify evolving customer needs and create marketing initiatives and opportunities. The Group will promote and supervise joint marketing among its affiliates.

Expanding the Synergy Base through Enhancing Customer Value

The Group plans to expand its synergy base through better focused management of customers, products, services, and channels at the group level. It will strengthen the market monitoring system to keep abreast of constantly evolving customer needs and will develop market-leading multi-products that reflect social trends and customer expectations. Plans have been drawn up to advance customer asset management services at the Group level and to bolster the competitiveness of multi-branch channels.

Strengthening Dominance in Smart-Banking

The Group will offer a wide array of smart-banking products and services to strengthen its leadership in smart-banking and enhance customer convenience and value.

IT System

With advanced IT system, KB Financial Group continues to support its subsidiaries' efficient management and stable growth

Strategic Direction

KB Financial Group has adopted 'improving Group-wide IT operating systems phase by phase with the goal of maximizing its synergies' as a strategic IT objective. For this objective, the Group sets up and carries out an execution strategy step by step, from formation of a basis for creating synergies to improvement of IT management efficiencies which will be followed by enhancement of IT services.

2012 Results

Establishment of Group IT Operation Process

The Group has established an IT collaboration process by creating an 'IT Strategy Committee' and putting the committee in charge of examining major IT issues facing the Group and formulating effective strategies to address them. All subsidiaries play integral roles in the newly established collaboration process. In addition, the Group has improved IT investment management by setting up IT business planning process and operating guidelines in order to assist its subsidiaries in planning for their IT projects, and to review such projects and fine-tune them, if necessary. The Group further arranges collaboration for any similar or overlapping investments and monitors the project progress on a regular basis.

Generation of Synergy through Joint Projects

The Group operates the unified smart-banking applications of its major subsidiaries, including KB Kookmin Bank, KB Kookmin Card, and KB Investment & Securities. This is intended to make its smart-banking services distinctive, improve customer service, enhance its smart image in smart-banking business. The webmail domains of its subsidiaries were unified in 2012 into one domain to enhance the overall image of KB Financial Group and to heighten the brand value. In addition, the Group's mobile portal system was built to promote efficient decision making and effective communication within the Group. Also, a business information monitoring system was set up to assist the top management in assessing up to date business performance of each subsidiary and making decisions in a timely manner.

Strengthening of IT Security and Increasing Cost Efficiency

In response to increasing data-breaching incidents and IT security threats, the Group has implemented a number of IT security controls and diagnostic programs. Also, a PC security solution is in place to prevent sensitive data from reaching outside the Group's intranet. Meanwhile, by jointly purchasing IT supplies in bulk and promoting joint project development, the Group endeavors to save on IT expenses.

2013 Plans

KB Financial Group will actively respond to developments in new information technologies to increase customer satisfaction and efficiently support its subsidiaries. For this, it will continually improve its internal IT development process and thereby boost efficiencies in the overall IT system operations.

To better comply with regulations set forth by government authorities, including the Electronic Finance Supervision, the Group will increase the productivity of its IT staff by adjusting the number and roles of its IT personnel. In addition, the Group will maintain close communication with its subsidiaries in regards to major IT projects so as to minimize insufficiency and promote joint use of resources. Various measures will be established to increase group synergy, enhance service quality, and increase the efficiency of the Group's IT operations.

Risk Management

Through rigorous and preemptive risk management, KB Financial Group assist its subsidiaries in realizing stable growth under all circumstances

Risk Governance

The basic risk management objectives of KB Financial Group are to increase transparency of risks it faces, prevent risk transference among the subsidiaries, and enhance its capabilities to proactively respond to rapid changes in the financial environment. Based on these, the Risk Management Committee and Risk Management Team at the group level focus their competencies on efficiently supporting the Group's long-term business strategy and decision making.

The Risk Management Committee is the Group's top decision-making organization in the area of risk management. The Committee formulates risk management strategies, determines the levels of risk appetite, examines the Group's risk management status, and determines the application of risk management systems, methodologies, and major revisions.

The Risk Management Council is composed of the chief risk officers of the holding company and the subsidiaries. The Council deliberates on matters entrusted by the Risk Management Committee and consults on detailed risk management-related issues. The Risk Management Department formulates detailed risk management policies, procedures, and processes of the Group. It is also responsible for monitoring and managing the Group's risk status and economic capital limits.

Risk Management

Credit Risk Management

The Group defines credit risk as expected and unexpected losses that could arise from a counterparty's default or credit rating deterioration.

CREDIT POLICY

Based on its management strategies, the Group formulates credit policies in consideration of economic outlooks, business environment, asset soundness trends, and its risk management capabilities. In accordance with these policies, loan management policies are implemented by loan type – household, corporate, and credit card. The basic direction of the Group's credit policy is to maximize its value by minimizing the volatility of mid- to long-term credit cost through stable asset quality management, which ensures steady profit generation.

CREDIT RISK MEASURING & MONITORING

KB Financial Group employs a credit risk measuring system to determine the credit VaR (Value at Risk) of on- and off-balance sheet assets. Credit VaR represents the maximum loss that may arise from changes in the creditworthiness of borrowers and counterparties under normal banking operations within a certain confidence level. Credit VaR is computed under simulation which reflects changes triggered by credit migration and correlation of cash flow and borrower default. The Group also identifies, measures, and monitors credit concentration risk that may arise from excessive concentration of the Group's portfolio on a certain individual or category of borrowers.

TOTAL EXPOSURE LIMITS MANAGEMENT

KB Financial Group has in place a total exposure limits system to prevent asset concentration on a specific area, and to optimize the Group's credit portfolio through sound asset management. The Risk Management Department regularly monitors this and reports its observation results to the management and the Risk Management Committee. The Risk Management Department regularly monitors this and reports its observation results to the management and the Risk Management Committee.

Market Risk Management

KB Financial Group defines market risk as the threat of potential loss on a trading position caused by fluctuations in market factors, including interest rates, foreign exchange rates, and stock prices. It identifies, measures, monitors, controls, and reports market risks in bond, foreign exchange, equity, and derivatives trading. Market VaR quantifies the risks in trading accounts. It represents the maximum loss of a portfolio over a period of time within a certain confidence level. The Group compares the actual and hypothetical losses to VaR calculations on a daily basis and test relevance of the VaR model.

Interest Risk Management

The Group defines interest rate risk as the risk of a fall in net asset value or net interest income (NII) from unfavorable fluctuations in market interest rates. The Group's interest rate risk management objectives are to comprehensively manage assets and liabilities to maximize net interest income within acceptable risk limits, and to minimize potential losses on net interest margins from adverse interest rate fluctuations.

Liquidity Risk Management

The Group defines liquidity risk as the risk that arises from being unable to respond to maturity mismatch and unexpected demand or supply of funds. The Group systematically manages liquidity risk with the goal of satisfying its obligations that arise from customer deposit withdrawals, redemption of matured debentures, and repayments of borrowings and maintaining sufficient liquidity for loans and investments in securities.

Operational Risk Management

The Group defines operational risk as all financial and non-financial risks arising in the course of operations that may adversely affect the Group's capital. The objectives of the Group's operational risk management are satisfying regulations set forth by government authorities, and spreading the risk management culture across the management and all employees through the reinforcement of internal controls and improvement of work process.

Economic Capital Management

Economic capital is the capital required to prevent the Group's economic insolvency due to unexpected losses. The Group measures, allocates and manages the economic capital in accordance with risk types 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 risk type and subsidiary. Each subsidiary, in return, manages its capital within the prescribed range.

Stress Testing

The Group conducts stress testing to assess its capital adequacy and to establish flexible risk management strategies in times of sudden changes in the external environment, gauging its portfolio's potential vulnerability to exceptional but plausible macroeconomic scenarios and establishing appropriate countermeasures. Stress test results are reported to top management and the Risk Management Committee, which use them to set risk levels, assess capital adequacy, and guide the management's decision making.

2013 Plans

In 2013 the Korean economy is expected to continue its low growth and financial uncertainty to increase, amid concerns of the on-going Eurozone debt crisis. This calls for risk management in preparation for a system risk transference and a multi-layered depression that could result from growing household bad debts. Against this backdrop, KB Financial Group will make continued efforts to enhance its asset quality and improve the risk management structure, placing the highest priority on building up risk management competencies and controlling credit losses, in addition to actively responding to uncertainties in global finance and changes in regulation.

Corporate Governance

The Group will strive to maximize shareholder value by establishing exemplary corporate governance and transparent decision-making process

Board of Directors

Structure and Composition

The Board of Directors (BOD) of KB Financial Group comprises 12 members, including nine non-executive directors, as of March 2013, all appointed at the general shareholders' meeting. The CEO & chairman is elected by the BOD after receiving a recommendation from the Chairman Nominating Committee, which consists solely of non-executive directors. The Chairman of the BOD is elected from among the non-executive directors. The Chairman presides over the Board and ensures its active operation. All non-executive board members have extensive knowledge and practical experience in their own areas, including finance, management, law, accounting, and the media, and have high reputation. The Non-Executive Directors Nominating Committee recommends them in accordance with the qualification criteria set forth in relevant regulations and in the Group's articles of incorporation.

BOD Committees

KB Financial Group has five standing committees – Audit Committee, Board Steering Committee, Management Strategy Committee, Risk Management Committee, and Evaluation & Compensation Committee – and non-standing committees – Non-executive Directors Nominating Committee and Auditor Nominating Committee.

AUDIT COMMITTEE

The Audit Committee consists of non-executive directors to safeguard its independence from the top management of the Group. It evaluates the internal controls systems of the holding company and the subsidiaries from an objective perspective. It provides improvement measures for any vulnerable areas and takes appropriate post facto action. As of the end of 2012, the Committee comprised five non-executive directors, including two accounting and financial experts.

BOARD STEERING COMMITTEE

The Board Steering Committee consists of the CEO, the BOD chairman, and committee chairmen, and is chaired by the chairman of the Board. It oversees improvement of the corporate governance structure and the operational efficiency of the Board and the committees and the development and monitoring of training programs for directors, and the collection of shareholders' opinions.

MANAGEMENT STRATEGY COMMITTEE

The Management Strategy Committee establishes the Group's vision and mid- to long-term strategies, yearly business plans, new strategic initiatives such as new alliances, and major financial strategies.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee acts as the top decision-making unit that sets risk management strategies and policies on behalf of the BOD to identify, measure, monitor, and control risks associated with the Group's and its subsidiaries' various business operations.

EVALUATION & COMPENSATION COMMITTEE

The Evaluation & Compensation Committee, consisting of only non-executive directors, establishes the basic principles of compensation structures within the Group. It is in charge of evaluation and compensation of key management officers such as directors, and reviews plans for the succession of the chairman & CEO.

2012 Major Activities

In 2012, the BOD conducted 14 meetings and passed 28 resolutions and discussed 33 reports. At each regular quarterly meeting, the BOD was briefed on the quarterly business performance and discussed diverse issues relating to the operation of the Group. An interim board meeting was held to discuss a certain M&A issue. At the interim meeting held in December, the BOD finalized the budget and management plans for 2013. Informal gatherings for discussions were also held to discuss measures on responding to changes in the market environment and key management issues.

Shareholder Relations

KB Financial Group puts first its shareholder rights and makes continued efforts to increase shareholder value. Despite the difficult financial environment of 2012, the Group paid out a cash dividend of KRW 600 per share.

Written Voting System

The Group is one of a few listed corporations to have a written voting system in place for shareholders who cannot attend the general shareholders' meeting. As a way to respect and ensure shareholders' voting right, ballots are sent to all shareholders in advance. The ballots sent back by shareholders are included in the tally at the general shareholders' meeting.

Board of Directors

■ Kyung-Jae Lee

- Chairman, Board of Directors, KB Financial Group
- Chairman, Board Steering Committee
- Member, Audit Committee

■ Jae-Wook Bae

- Lawyer, Baejaewook Legal Office
- Chairman, Risk Management Committee
- Member, Board Steering Committee
- Member, Audit Committee

■ Young-Jin Kim

- Professor, Seoul National University's College of Business Administration
- Member, Audit Committee
- Member, Risk Management Committee

■ Kun-Ho Hwang

- Visiting Professor, Seoul National University's College of Business Administration
- Chairman, Evaluation & Compensation Committee
- Member, Board Steering Committee
- Member, Risk Management Committee

■ Jong-Cheon Lee

- Professor, Dept. of Business Administration, Soongsil University
- Chairman, Audit Committee
- Member, Board Steering Committee
- Member, Risk Management Committee

■ Seung-Hee Koh

- Professor, College of Business Administration, Sookmyung Women's University
- Member, Audit Committee
- Member, Evaluation & Compensation Committee

■ Young Kwa Kim

- Senior Adviser, Korea Securities Finance Corporation
- Member, Management Strategy Committee
- Member, Evaluation & Compensation Committee

■ Young-Nam Lee

- CEO, Novas EZ Co., Ltd.
- Chairman, Management Strategy Committee
- Member, Board Steering Committee
- Member, Evaluation & Compensation Committee

■ Jae-Mok Cho

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

■ Yoon-Dae Euh

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

■ Young-Rok Lim

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

■ Byong-Deok Min

- President & CEO, KB Kookmin Bank
- Member, Management Strategy Committee

■ Non-Executive Directors ■ Executive Directors ■ Non-Standing Director

Provision of Transparent, Fair Information

Two weeks before a general shareholders' meeting, the Group sends out to all shareholders information materials regarding issues on the meeting's agenda. In case of electing a director, the director's name, profile, and the recommender's name are provided. Prior to the fifth general shareholders' meeting, an invitation letter and reference information of the meeting's agenda were sent to all 146,897 shareholders. In accordance with relevant laws, including the Commercial Law, public announcement on the convocation of the meeting was made on two occasions in two daily newspapers two weeks before the meeting. Information on the holding of the shareholders' meeting was also provided on the website. Information materials regarding items on the meeting's agenda and the activities of non-executive directors were made available at the headquarters office and posted on the homepage two weeks before the general shareholders' meeting. A video of the meeting was made available on the Group's homepage to ensure transparency in corporate governance and Group management.

Internal Control over Financial Reporting

To comply with Section 404 of the US Sarbanes-Oxley Act and Korea's internal accounting standards, the Group has established internal control rules in financial reporting, appointed internal accounting managers, created a unit managing related affairs, and designated internal control officers in all departments.

Designing of Internal Controls over Financial Reporting

KB Financial Group's internal controls over financial reporting were designed in consideration of the five components of COSO (Committee of Sponsoring Organizations of the Treadway Commission), which are generally accepted criteria on internal controls. The five components are control environment, risk assessment, control activities, information and communication, and monitoring. They enable protection of assets, prevention of irregularities, and prevention and exposure of financial information distortion. Each department's relevant personnel and internal controls manager conduct self-evaluation based on the criteria. A dedicated organization on internal controls over financial reporting examines the appropriateness of the evaluations.

Evaluation of Operation of Internal Controls over Financial Reporting

All members of KB Financial Group conduct internal controls over financial reporting in the course of business operations. An evaluation was carried out on the effectiveness of internal controls over financial reporting by using such criteria as the Internal Accounting Control System Standards in Korea and the audit criteria in relation to internal controls over financial reporting in the US. The outcome of the evaluation indicates that KB Financial Group's internal controls over financial reporting are effectively designed and operated from the perspective of significance as of December 31, 2012.

Corporate Culture

By attracting and fostering global talents
KB Financial Group will reinforce its reputation
as a global financial company

HR Management

KB People

The corporate culture of KB Financial Group is “customer-focused,” “professional,” “innovative,” “speedy,” and “performance-oriented.” Based on this corporate culture, all members of the Group are striving to realize the Group’s vision of becoming a “global financial group leading the Asian financial industry.” The model employee of the Group is defined as “a professional financial expert who leads change and improves customer value through creative thinking and actions.” In particular, KB Kookmin Bank endeavors to discover and foster experts who can lead the global financial market. A financial professional is someone who is proactive, responsible, innovative and can bring about change. He or she has a customer-oriented mindset and takes initiatives to constantly enhance customer value. He or she also knows how to respect and embrace different ways of thinking and seeing things.

HR Principles and Strategies

The Group applies uniform HR principles and methods to the entire scope of its business operations. To help its affiliates plan for efficient HR management and deal effectively with major HR issues, the Group has established an integrated system allowing them to coordinate and cooperate on HR management, thereby laying a foundation for generating manpower synergies at the group level. On the affiliate level, the Group has promoted strategic partnerships and balanced growth in HR management among the affiliates through support for improving their personnel systems and for cooperating on HR issues among them.

A sizable staff reallocation took place within the Group upon the establishment of KB Savings Bank in 2012, resulting in increased efficiencies in personnel management. KB Kookmin Bank held “KB Global Language Exposition” to recruit potential global banking specialists. “HR Open Space” was launched to promote seamless communication with sales personnel at the branch level and thus strengthening the platform for long-term growth. To increase its market share in the non-banking sector, the Group continues to explore ideal ways for finding skilled experts in such areas as credit card, securities, insurance, and asset management.

Human Resources Development Programs

KB Financial Group regards the fortification of HR competencies as one of its top priorities in bolstering its overall competitiveness. Each affiliate operates its own in-house and off-site training programs and has field-specific job competency development courses. For example, KB Kookmin Bank nurtures banking experts according to the four objectives of its HR development policy – strengthening job

competency, bolstering leadership competency, developing global competency, and fostering core talent by, among other incentives, offering its outstanding employees MBA courses at home and abroad.

The Group will continue to seek higher productivity and profitability by promoting active HR exchanges leading to balanced growth among its affiliates, and strategically allocating manpower at the group level. It also will keep its HR system a step ahead of its peers to secure and retain financial talent. Moreover, it will grow into “the best workplace with the best experts creating the best-possible value” by firmly establishing a corporate culture that honors competency and fairly rewards performance.

Labor-Management Relations

The holding company and its affiliates each operate its own labor-management council, thereby building a culture of participation and cooperation. Of the affiliates, KB Kookmin Bank, KB Kookmin Card, and KB Real Estate Trust each have a labor union with not only a labor-management council but also collective labor-management relations in place.

Major Labor-Management Issues

In 2009, in response to a nationwide “job-share” campaign, the labor union and the management reached an agreement for a 5% across-the-board pay cut and the mandatory use of annual leave. In 2010, to enhance management efficiencies through improvements in the personnel structure, the two sides again agreed to a voluntary retirement plan involving 3,244 staff and employees, the largest of its kind in the history of Korea’s financial industry. In 2011, although there was initial demand for a substantial wage increase to compensate for the wage freeze made in 2008, the union agreed to a salary level suggested by the executive committee.

In 2012, a joint declaration by labor and management on the future growth of the Bank was adopted to further strengthen labor-management relations based on trust and cooperation. In addition, labor and management agreed to donate around 20% of a pay raise to a social joint fund. Other efforts are underway to build progressive labor-management relations.

The labor and management of the Bank will together implement various cooperation programs, and continually develop and execute diverse measures to promote communications between them and thus build a stronger partnership. By developing a new labor-management culture, the Bank will enhance productivity while fulfilling its social responsibilities.

Social Contribution

KB Financial Group is doing its part to make a better place for living by dedicating itself to social contributions

CSR Vision & Directions

KB Financial Group sets an example in corporate citizenship and applies the same degree of sincerity towards caring for the needy. Aiming to become “the most respected corporate citizen,” the Group has defined the following three tasks as its basic directives: providing focused support to key project areas, making practical contributions to the local community, and integrating earnest social contributions into its corporate culture. While leveraging its competencies and network to contribute more to society, the Group shuns self-promotional or one-time events and instead conducts programs and activities in close collaboration with the communities involved. It also encourages all of its staff and employees through various administrative support measures to actively take part in social contributions.

Major CSR Activities

KB GoodJob

KB GoodJob is a job-matching program that KB Financial Group launched in January 2011 as a way to promote employment and alleviate a growing social issue. Information on job opportunities at sound and promising SMEs is acquired through KB Kookmin Bank’s approximately 1,200 branches and affiliated organizations and is posted on a portal site that provides job information (www.kbgoodjob.co.kr). As of the end of December 2012, the portal site had about 30,000 job seekers and 12,000 companies registered. Job seekers and companies that hire regular employees through KB GoodJob are given preferential services for financial transactions. KB Financial Group thus is taking the lead actively in resolving the youth unemployment issue.

To promote KB GoodJob, the Group provides high-quality job information by identifying promising companies and attracting qualified and motivated job seekers. In addition, the Group seeks the support of employment-related institutions such as schools and trade organizations. In April 2012, the Group signed an MOU with the Ministry of National Defense on creating jobs for and promoting the employment of those who have served in the army. In September 2012, the Group hosted in cooperation with the Ministry of National Defense a job/business startup fair for discharged or soon-to-be-discharged commissioned officers. In May 2012, the Group successfully held the “2012 KB Goodjob Promising Company Employment Exposition,” attracting some 250 prospective employers and over 18,000 job seekers.

Group-Level Social Contribution Activities

KB STAR ECONOMY & FINANCE CLASS

To contribute to society by leveraging its expertise and help people achieve financial self-reliance, KB Financial Group has chosen “KB Star Economy & Finance Class” as its leading program. The holding company and its affiliates each provide volunteers and class contents. Former and current employees of the Group visit elementary, junior high, and high schools throughout the country to provide classes on the subjects of their expertise. The number of students who took such classes neared 45,000 in 2012 alone, while employees who participated in the program as lecturers numbered 570.

SOCIAL CONTRIBUTION ACTIVITY BY KEY AREA

KB Financial Group has designated May as social contributions month, and November and December as a “winter sharing” period. Each year during these three months, all employees of the Group take part in various philanthropic activities in close contact with their local communities. The Group directs group-wide contribution activities to the four key focus categories – youth, global, the environment and wellbeing of the aged. The leading programs include an excursion program with needy children, a program aimed at restoring the damaged urban ecosystem and creating a natural place for people to rest, a program that provides summer and winter supplies to seniors living alone, and a vehicle support program for some 50 social welfare facilities around the nation.

KB STAR DREAM VOLUNTEER TEAMS

KB Financial Group supports “KB Star Dream Volunteer Teams” under the slogan “Thinking of People First” to provide hopes and dreams to marginalized neighbors. All 1,200 or so branches of the Group are members of one of the volunteer teams that each represent one of the four key focus categories and take part in related activities. All of the Group’s 25,000 or so employees have taken part in at least one volunteer activity. As of the end of 2012, the volunteers who have taken part in the program totaled around 80,000 and accumulated volunteer hours exceeding 340,000. The number of hours an employee volunteered averaged 14 hours.

KB Kookmin Bank

TEENAGER SPONSORSHIP PROGRAMS

KB Kookmin Bank supports teenagers from low-income families by engaging them in learning and cultural activities. Its leading programs include one aimed at reducing the information gap between those in urban and rural areas; a program creating places where less-privileged teenagers can study and build dreams; a program that teams up teenagers of needy families with college students for one-on-one tutoring and mentoring; and a program for treating and counseling students involved in school violence.

GLOBAL VOLUNTEERING

KB Kookmin Bank is offering a helping hand to people in other countries as well. “RaonAtti” is a Bank-sponsored overseas volunteer team made up of college students. It carries out volunteer activities for marginalized teenagers in seven Southeast Asian countries. Another program provides Korean language learning materials to students in four countries, including Vietnam and Kazakhstan. This program contributes to increasing Korea’s global stature and enhancing the image of Korea.

VOLUNTEER ACTIVITIES INVOLVING COMMUNITY MEMBERS

KB Kookmin Bank also carries out a program centered on Korea’s slowly disappearing heritage by promoting traditional markets while helping needy people. In 2012 the Bank used 33 regional HQ offices to execute the program, supporting some 7,900 underprivileged people with daily necessities by purchasing them at traditional markets across the nation. The Bank’s extensive branch network played a crucial role in adapting the volunteer activities of the program to local characteristics. The program is one of the Bank’s many ways to establish itself as a bank that shares and grows together with the communities it serves.

ENVIRONMENTAL PROTECTION ACTIVITIES

To promote green growth, since 2009 the Bank has been taking part in a tree planting campaign with participation by the private and government sectors as well as the military. In 2012, the Bank planted around 20,000 trees together with the other organizations taking part. The Bank’s regional headquarters across the nation conduct on a regular basis environmental activities in their respective regions.

SOCIAL CONTRIBUTIONS-RELATED PRODUCTS AND SERVICES

To carry out social responsibilities related to banking and other financial services, the Bank develops and offers financial products that cater to the underprivileged and promote public interests. Some of these include a loan product designed to help the financially marginalized achieve a stable and dignified lifestyle. Another loan product helps people in the low-income class or with low credit pay off or reduce their high interest-rate loans in the non-banking sector. Other offerings include a free withdrawal account that cannot be sequestered and is exclusive to recipients of basic living assistance, and a savings account that offers prime rates to the underprivileged. Through these products, the Bank supports the financial independence of those less fortunate.

KB Kookmin Card

TEENAGER SPONSORSHIP PROGRAMS

In 2012 KB Kookmin Card provided economic and financial education to around 9,000 students in 60 schools in the Seoul and Gyeonggi areas. By so doing, the Company contributed to increasing the economic knowledge of these teenagers. The Company also sponsored a “Huddling Concert” promoting the prevention of and raising awareness about school violence.

ENVIRONMENTAL PROTECTION ACTIVITIES

KB Kookmin Card conducted a volunteer program that involves cleaning up a major stream and its banks in Seoul, as part of its effort to protect the environment of the local community. The Company also runs an employee volunteer program that regularly keeps cultural assets and their vicinities clean. Through these programs, the Company takes the lead in protecting its communities’ environment and culture.

GLOBAL VOLUNTEERING

In response to a growing social trend, KB Kookmin Card has been running a program for children of multicultural families for some time. “Dream Day Camp” offers these children opportunities to experience Korean culture and to learn about various professions. By bringing them closer to Korean culture, the Company helps these children deal with their language as well as cultural problems and grow into an active member of Korean society. Through this program, these children will build hopes and dreams for a better future for themselves as well as for society as a whole.

SENIOR WELFARE PROGRAMS

Kookmin Card carries out a wide array of social activities for seniors living alone. Around 400 employees visit such seniors each year with daily supplies to comfort them. The Company's call-center employees call these seniors to provide them with emotional support and care. Many teenagers who take part in the Company's economic and financial education program also volunteer to deliver kimchi to the seniors. This kimchi-sharing program is emerging as a new form of social contribution, as it involves the recipients of one social contribution program of the Company giving to another.

SOCIAL CONTRIBUTION-RELATED PRODUCTS AND SERVICES

KB Kookmin Card also carries out its social responsibilities using its business expertise. It has recently introduced a product that sets aside KRW 1,000 every time a customer uses the card to make a purchase and donates the accumulated funds to the underprivileged. The money is donated at year end to Good Neighbors, UNICEF, and the Community Chest of Korea. The Company also has a program in place that allows customers to donate their credit card points to an NGO of their choice. As such, this program encourages customers to take part in a social program and become an active member of society.

KB Investment & Securities

KB Investment & Securities runs a program called "Rainbow Classroom" that supports the reconstruction and remodeling of elementary schools. In 2012, the scope of the program was expanded beyond national boundaries when an elementary school in Laos became its latest beneficiary. Voluntary employees of the Company visited the school to provide education and engage in other activities intended to build a friendship with people from the school village. "Happy Food," designed for unprivileged seniors, is another of the Company's leading social contribution programs that raises funds through donations by employees of their pocket money. Previously conducted at the company level, the program is now carried out at each division with voluntary participation of its employees.

KB Life Insurance

KB Life Insurance conducts diverse social contribution activities with a focus on seniors and the environment so as to give a helping hand to underprivileged neighbors and to promote green growth. The leading programs designed for seniors include "Silver Sports Festival," "80th and 90th Birthday Parties for Seniors," and a program providing kimchi and briquettes. Programs for environmental preservation include tree planting, cultivating a forest

in the middle of Seoul, and street cleaning. The Company also supports teenagers and the underprivileged through economic and financial education for teenagers and regular volunteer activities at community welfare centers across the nation.

KB Asset Management

Pursuing responsible corporate citizenship, KB Asset Management focuses on volunteer activities that encourage employee participation and donation. For over seven years, the Company's employees have been volunteering their time by serving free meals to the socially marginalized. This volunteer activity has become the mainstay of the Company's social contribution. Since 2012, the Company has been funding the program's operating expenses that cover the costs of meals. The Company also provides financial support to children suffering from diseases and sickness as a way to help them build their hopes and dreams.

KB Real Estate Trust

KB Real Estate Trust runs an employee volunteer program through which all employees each spend 10 hours a year volunteering. All employees have been visiting one or two child welfare centers every year for the past six years to bring care and love to underprivileged children. The Company donates books to social welfare centers for children and teenagers and funds to elderly care facilities and to the underprivileged.

KB Investment

KB Investment views carrying out social activities as one of its most important functions with a strong interest and deep consideration for the communities of which it is part. One of these activities is spending time outdoors with seniors at nursing homes and delivering kimchi to needy neighbors around its business sites.

KB Credit Information

To contribute to its local community, KB Credit Information runs a program through which employees visit community welfare centers in the Company's vicinity every month to serve free meals to low-income residents and the homeless. Every second Tuesday is designated as the "day of volunteering" as to remind its employees to volunteer their time for social activities on a regular basis.

KB Data System

Since the launching a “KDS Volunteer Team” in 2008, KB Data System has been engaging in diverse social contribution activities for its local communities and the underprivileged. Leading activities include regularly visiting welfare centers for the elderly that includes serving meals, sharing holiday rice cakes, and delivering rice in the winter. Every November 17, the memorial day for martyred ancestors, the Company’s employees and their children visit the Seoul National Cemetery to pay their respects, and police up surrounding areas.

KB Savings Bank

As part of its effort to promote the development of the local community, KB Savings Bank runs a free meal program every week. Held in a wholesale market for agricultural and marine products in Seoul, the program is manned by volunteer employees who carry out the entire process, including cooking and washing the dishes. They also take part in environmental purification activities in the vicinity and collect pocket change for donations.

Future Plans

KB Financial Group plans to further expand the scope of its social contributions to become a “respected corporate citizen” and thus achieve its CSR goal. Towards this end, the Group will actively identify and execute strategic social contribution activities that can increase both the level of its social contributions and its corporate value as well. Moreover, it will create shared value among the participating members of its social contribution activities and establish a social contributions model unique to KB Financial Group. By so doing, the Group will do its best to become true to its motto, “A financial group that thinks of the people first and earns the deepest respect from them.”

KB Kookmin Bank

KB Kookmin Bank will make its way beyond being Korea's No. 1 through value focused growth

Retail Banking

Despite the worsening business environment in 2012, KB Kookmin Bank steadily expanded its customer base in retail banking, thereby demonstrating its growth momentum. By actively responding to market changes, the Bank increased its low cost deposit base by KRW 2 trillion and new conforming loans by KRW 3.8 trillion. In the area of smartphone banking, its key future growth base, the Bank became the first in Korea to attract more than 5 million "KB Star Banking" customers. Furthermore, it sold 80,598 "Yellow Umbrella Deduction" accounts to owners of SOHOs and small businesses. Through these and other endeavors, the Bank secured a market position that is overwhelmingly ahead those of its competitors.

No. 1 Bank in Customer Satisfaction

KB Kookmin Bank is a top-quality customer service provider with advanced follow-up systems run by experts with global competencies. In 2012 all of its employees made a united effort towards its goal of "No. 1 bank in customer satisfaction." Substantial improvements were made to these systems based on customer satisfaction competencies developed over a long period. A wide consensus was reached among the employees on the importance of customer satisfaction through active communication.

Through these efforts, KB Kookmin Bank further strengthened its reputation as "the best bank in customer satisfaction" and has a string of recognitions to show for it. The Bank ranked first in Korea's most prestigious customer survey, the NCSI (National Customer Satisfaction Index), becoming the first in the banking sector to take the top spot for the seventh consecutive year. The Bank also came in first in the banking sector in the KCSI (Korean Customer Satisfaction Index), for the sixth consecutive year. In addition, the Bank received the "Customer Satisfaction Management Award" at the Korea's Management Awards and ranked first for the sixth consecutive year in the banking category of the KNPS (Korean Net Promoter Score).

Sales Channels Diversified

KB Kookmin Bank operates a variety of specialized branches in accordance with local traits and customer characteristics. Through such branches, the Bank aims to monitor and respond in a timely manner to the fast-changing financial environment, and to constantly evolving customer needs. A leading example is "Rockstar Zone," a branch identity for university students with the goal of attracting potential customers by projecting as a youthful bank to which they can relate. A total of 41 branches are located on university campuses across the nation, offering financial services

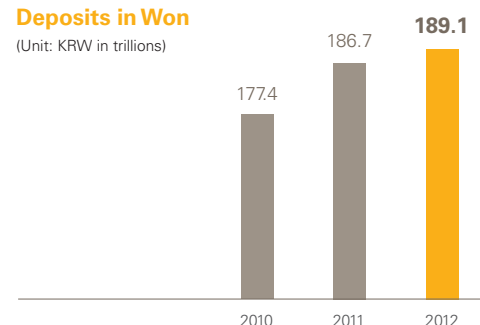
and cultural experiences to 430,000 young customers. In addition, the Bank conducted distinctive marketing activities targeting university students, including an overseas backpacking program, indie band performances, and job seminars. In recognition of its popularity, "Rockstar Zone" was chosen by KMAC as "The Best Product Offering PROUD Customer Value of 2012."

KB Kookmin Bank became the first in the domestic financial industry to open "pop up" branches – a system where branches can be set up wherever warranted. This system enables the Bank to provide financial services even in new housing development districts, where lack of infrastructure makes regular commercial banking services difficult to procure, and in urgent disaster situations. The Bank also opened specialized branches for office workers in two areas of Seoul with a high density of office buildings in an effort to satisfy the financial needs of the working population. The branches are located in areas that are easily accessible to office workers and are open from noon to 7pm for their convenience.

KB Kookmin Bank has broken away from the traditional uniform branch structure, and instead developed and expanded a customer-centric system that reflects customer needs and lifestyles. Through these efforts, the Bank is strengthening and diversifying its sales channels, and enhancing their efficiencies.

Deposits in Won

(Unit: KRW in trillions)



Distinctive New Deposit Products Launched

KB Kookmin Bank strives to develop innovative new products that boost customer satisfaction and generate growth. In 2012, the Bank unveiled 13 new deposit products. A total of 332,280 accounts, amounting to KRW 6,300.1 billion, were opened as of the end of the year. Various products were highlighted by the media as hits and received positive customer responses. They include “KB Talking Installment Deposits,” a specialized product for smartphone users, featuring a talking, touch-sensitive character that can guide users through the program steps; “KB FUNDRO Time Deposits,” an asset management-type savings product that reinvests principal and interest in funds as they mature; and “KB Golden Life Installment Deposits,” a retirement savings program.

Wealth Management Service Strengthened

By offering professional, systematic wealth management services, KB Kookmin Bank is continually expanding its customer base. In 2012, it held for the first finance expo for the banking, “KB Finance Wealth Management Festival with Star Table,” publicizing its asset management competencies. By launching “KB Golden Life,” a wealth management brand for a retirement preparation assessment system, the Bank laid a foundation for getting into the retirement and pensions market, a key future growth driver. The Bank also unveiled “R-easy,” a comprehensive wealth management service for both real estate and financial assets.

Last year marked the tenth anniversary of the Bank’s PB business that was launched in 2002 in conjunction with the “GOLD&WISE” brand. The Bank’s PB business has steadily grown since its introduction, thanks to its competitive PB-exclusive products, its advisory services on tax, real estate, and legal matters, all of which are provided by top-notch experts, as well as its total life care services that go beyond asset management. As of the end of 2012, the Bank had 23 PB centers across the nation, the highest number in Korea. On the tenth anniversary of the launch of its PB business, the Bank made a business alliance with Lombard Odier, a Swiss bank that specializes in PB. The Bank will fully leverage this partnership to enhance the expertise of its private bankers and provide quality overseas investment information and competitive products, thereby bolstering the quality of asset management.

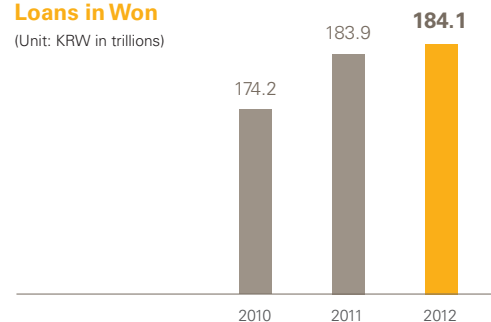
Corporate Banking

Despite the economic downturn and subsequent limited growth opportunities, KB Kookmin Bank recorded stable profits in the corporate banking sector in 2012. This was largely due to a rise in non-interest income brought on by the CIB marketing model the Bank implemented and by the improvements made in provisioning expenses through rigorous risk management. The Bank focused particularly on providing distinctive products and services that satisfy customer needs, and on strengthening relations with its corporate customers. As a result, the Bank’s market share in loans in won reached 16.8% (based on shared data among banks) and its market share in syndicated loans reached 20% (based on the Bloomberg League Table). These achievements place KB Kookmin Bank at the top of domestic commercial banks, proving that the Bank is strengthening its leadership status in the corporate banking sector.

Leading Bank in Investment Banking

Despite fierce competition in the banking sector in 2012, KB Kookmin Bank successfully arranged financing for several large-scale power plant and SOC projects, including the Dongducheon LNG-Fired Combined Cycle Power project and the refinancing of the Busan-Gimhae Light Rail Transit. The Bank also arranged major deals, including acquisition financings for Hynix and KYOBO Life Insurance. As such, according to data compiled by Bloomberg the Bank assumed its leadership position among commercial banks in the syndicated loan market. The Bank also successfully held the “KB Power Conference 2012” in October, strengthening its stature in the power plant market.

Loans in Won
(Unit: KRW in trillions)



Supporting SMEs with Great Potential

In an effort to fulfill its social responsibilities as Korea's largest financial institution, KB Kookmin Bank introduced a "KB Hidden Star 500" program to identify and support outstanding small-to medium-sized companies in Korea. Launched in February 2011, the program first identifies promising SMEs with technological competitiveness and large growth potential, and then helps them become world-class businesses. As of the end of 2012, a total of 244 SMEs have been selected and received both customized financial and non-financial services, including favorable loan interest rates and free consultation. Moving forward, the Bank will continue to seek out SMEs with high growth potentials and provide them with systematic support. By doing so, the Bank will be promoting export growth and the creation of many high-quality jobs, thereby contributing to the development of the national economy.

Enhancing Competitiveness in DC Pensions

In the DC (Defined Contribution) pensions market, the Bank bolstered its pension plan line-up by enhancing ROIs and diversifying its asset management methods. As a result, the Bank posted KRW 1,820 billion in total pension contributions, representing a 50% increase from the previous year. The Bank has maintained its No. 1 position in the domestic DC pensions market for six consecutive years and become the industry leader in terms of the number of pension holders, which was around 240,000 customers as of 2012.

Expanding Global Network

KB Kookmin Bank continues to expand its overseas network in an effort to bolster its global competitiveness. Following the opening of its Mumbai Office in June 2012, the Bank opened an Osaka Branch in August, and both a subsidiary in China and a Beijing Branch in November. The Bank also strived to establish business alliances with renowned overseas banks during the year, including with India's ICICI Bank in June, Jordan's Arab Bank and UAE's Abu Dhabi Commercial Bank in September.

Trust

Through its trust products, KB Kookmin Bank offers its customers opportunities to invest in a variety of capital market products. As Korea's largest institution in the trust business, the Bank is managing around 2,900 funds for 200 asset management, pension fund, and insurance companies in Korea and abroad. The Bank aims to achieve steady growth in the trust business and develop it into a core non-interest income and future growth driver for the Group.

Money Trust Balance Continually Increased

KB Kookmin Bank has been responding proactively to rapid changes in the financial environment and to varying customer needs by releasing various MMT (Money Market Trust) products in a timely manner, including ELS and DLS. The Bank has bolstered its competencies in the trust business by strengthening its marketing capabilities and developing customer-oriented IT systems. As a result, the Bank's specified money trust balance in 2012 reached KRW 11.1 trillion, a year-on-year rise of 6.23%. In the unspecified money trust sector, its pension trust, which is one of the Bank's major financial products that help customers prepare for their retirement, recorded a balance of KRW 2.9 trillion, representing a solid continued growth. In 2012, the total money trust balance reached KRW 14.1 trillion, with profits from trust commissions totaling KRW 133 billion.

No. 1 Position in Custody Market

Based on its outstanding services, in 2012 KB Kookmin Bank enjoyed the biggest share of the investment trust market for the tenth consecutive year, and the largest portion of the insurance market. Favorable market responses to KB's high-quality services led to coveted recognitions from the media at home and abroad. In the Global Custodian's 2012 survey, the Bank ranked first among domestic banks in the custody business, thus earning the "Top-Rated" mark, for the seventh consecutive year. Moreover, the Bank was named the "Best Custodian Bank" two years in a row at the "2012 Korea Awards," hosted by Asian Investor and received the "Service Provider Awards," also for the second consecutive year.

Chosen as Manager of National Housing Fund

In February 2013, KB Kookmin Bank was selected as the manager of the National Housing Fund. The National Housing Fund is a government fund that provides housing finance support to low-income people. Fund-related work includes creation of new housing subscription savings deposits, issuance of housing bonds, and provision and management of fund loans.

Capital Markets

KB Kookmin Bank manages marketable securities and derivatives, and handles foreign exchange dealings and derivatives marketing. The Bank is steadily strengthening its dominance of the capital markets based on its high name recognition and credibility. Through the stable operations of its CMBS (Capital Market Business Support) system, the Bank has built a foundation for the operation and profit generation capital market products. The Bank has strengthened the compliance of its capital market business by making improvements to its internal controls.

Derivatives Marketing Competency Strengthened

Even amid the sluggishness in the derivatives market caused by the global economic downturn and the European financial crisis, KB Kookmin Bank continued to engage in derivatives marketing to attract new customers. The Bank focused on diversifying and expanding the profit base by offering an on-line foreign exchange rate reservation service. These efforts resulted in a year-on-year rise of 44% in the size of transactions with institutional financial clients.

Trading Income Sources Diversified

In the area of trading, KB Kookmin Bank focused on improving its internal processes for managing risks and preparing for the recurrence of financial turmoil as uncertainty in the global economy grew. The Bank also reinforced the foundation for sustained growth by diversifying its trading income sources.

New Growth Business

No. 1 in Internet Banking Service

According to data from the Bank of Korea, KB Kookmin Bank had 16.63 million Internet banking customers as of the end of 2012, the largest in the domestic financial industry, and the biggest market share in Internet banking. The Bank was the first financial institution to launch open Web-based Internet banking services, enhancing customer convenience by maintaining easy web access. Moreover, for the first time in the industry, the Bank applied the EV (Extended Validation) SSL certificate to all of its online services in order to prevent phishing. The Bank received noteworthy recognition for all these pioneering efforts, including the Prime Minister's Award at the 7th Korea Internet Awards and the Best Award at the 8th Web Awards Korea.

Leadership Reaffirmed in Smart-Banking

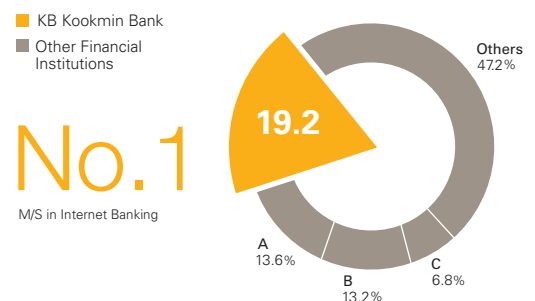
"KB Star Banking" offers convenient financial services and better lifestyle choices through its customer-centered UI, smartphone banking products, and other value-added services. As of the end of 2012, the Bank had 5.4 million smart-banking customers, the most in Korea. The Bank received the Comprehensive Grand Prize in the financial category at the "Smart App Awards" hosted by the Korea Internet Professionals Association. In addition, the Bank opened the "smart branch", where cutting-edge financial devices featuring smart technologies are set up to assist customers in conducting bank transactions and tech-savvy employees are ready to answer all banking questions. This branch was assessed as a new branch model that will shape the future of smart banking. Through these efforts, the Bank is creating a new paradigm in the market.

Green Financial Products for Green Growth

With its wide range of eco-friendly financial products, KB Kookmin Bank is encouraging customers to lead environmentally-sound lives and is taking the lead in fostering green companies. In 2012, the Bank unveiled "KB Wise Green ELS Trust" and "KB Green Focus Fund (Equity)" products that invest in outstanding green companies. "Green management" was implemented bank-wide, running the "KB-GEMS (KB Greenhouse Gases Energy Management System)". The Bank is also taking part in pilot projects for "Greenhouse Gas and Energy Target Scheme (hosted by MOLIT: Ministry of Land, Infrastructure and Transport)" and "Carbon Emissions Trading Scheme (hosted by Seoul Metropolitan City)".

Market Share in Internet Banking

(Unit: %, As of December 31, 2012)



2013 Plans

KB Kookmin Bank has defined its 2013 management strategic direction as “strengthening sustainable management based on fundamentals and principles”. To this end, the Bank will focus on four core tasks – strengthen social responsibility, maintain stable financial performance, reinforce the customer-centered operation system, and develop future growth engines. The growth plan and strategy for each business area are as follows:

Retail Banking: Maximizing Customer Satisfaction

KB Kookmin Bank will continue to provide customer-centered services to increase customer loyalty and thus maintain its leadership position in customer satisfaction. To this end, the Bank will focus on improving material-based services, including products, systems, and processes, based on its top-notch human-based services. Substantial improvements will be made in face-to-face customer service at the branch level as well as in service quality at the headquarters level.

The Bank will refine the questions used in customer satisfaction surveys as a way to enhance customer service and thus strengthen customer loyalty. Plans have been devised to provide training for employees through professional CS managers so as to fully establish a customer-centered paradigm. Based on these improved CS competencies, the Bank will pursue a higher-level of service by visiting and assisting customers, thus engaging in more active CS-focused activities.

Corporate Banking: Coping with the Low-Growth Trend

It is expected that lower growth and profitability will be unavoidable in the 2013 corporate banking sector due to the global economic downturn and low interest rates. Accordingly, the Bank will respond actively in laying a foundation for sustained growth by expanding its preferred customer base, developing new profit sources, and engaging in joint marketing with its KB affiliates through the CIB marketing model.

Trust: Strengthen Competitiveness

The Focus in the trust business will be on increasing trust AUM and trust commissions. To reach these objectives, the Bank plans to maintain a stable dividend rate for pension-type unspecified money trust products, and develop various asset management-type products for the specified money trust sector. In the area of specified money trusts, the Bank will develop CP, ELS, and MMT as leading products. It also will improve the commercial value of equity-type products and develop a wide range of new financial investment products that reflect market conditions and satisfy customer needs. The Bank thereby will strive to develop mid- to long-term profit models and expand its profit basis.

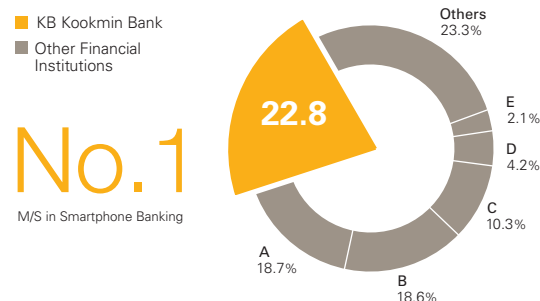
In the custody business, the Bank has set “reinforcing the Bank’s stature as a leading bank in the custody market” as its vision for 2013. The Bank will engage in diverse efforts to achieve this goal, such as expanding its foundation for the custody business, securing future growth drivers, and strengthening the customer-centered service system.

Capital Markets – Building a Foundation for stable profitability

In 2013, the Bank will strengthen its sales channels in an effort to become the nation’s No. 1 bank in derivatives marketing, and will position outstanding employees in the frontlines. The plan is to focus on building a stable profit base by enhancing customer flow management through close cooperation between the trading and derivatives sales sectors in line with encouraging signs in the global economy.

Market Share in Smartphone Banking

(Unit: %, As of December 31, 2012)



KB Kookmin Card

With ‘can-do’ spirit, KB Kookmin Card offers various customized services, making its customers’ daily lives more convenient and productive

KB Kookmin Card was spun-off from Kookmin Bank on March 2, 2011 with a vision of becoming “Korea’s best daily life solution provider”. This is part of our attempt to strengthen the competencies of the credit card business and to bolster the growth of the non-banking business sector of KB Financial Group. It rolled out innovative products and services, placing the highest priority on customer value. KB Kookmin Card expanded its business into the travel, insurance, and online order sectors, offering various value-added services to customers and diversifying the Company’s profit sources.

As a result, less than two years into the business, KB Kookmin Card took first place in the credit card category of the 2012 NCSI (National Customer Satisfaction Index) and placed first in the check card category of the KCSI (Korea Customer Satisfaction Index) for the second consecutive year. As of the end of 2012, the Company’s customers numbered 19.6 million, its assets totaled KRW 14 trillion, and its credit card transactions reached KRW 88 trillion, thus maintaining its leading position in the domestic credit card market.

2012 Results

Innovative Products and Services

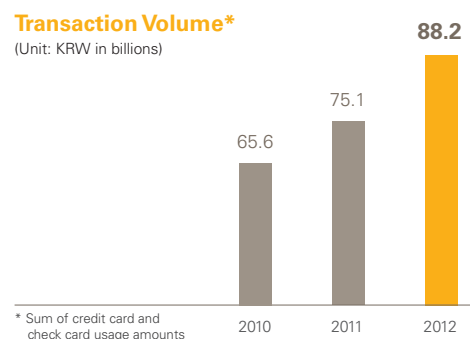
The Year 2012 was difficult for the card industry due to the economic downturn, tougher government regulations, reduced merchant fees, and deteriorating asset quality. Despite these challenges, KB Kookmin Card expanded its income base to achieve sustained growth through innovative products and services. The Company steadily increased its market share and became No. 1 in the check card business.

In the check card business area, KB Kookmin Card continued to enhance product diversity and customer convenience. Various products were launched to meet the specific needs of different age groups: “Rockstar Check Card” for customers in their teens and 20s, “Office Worker Bonus Check Card” for customers in their 30s and 40s, and “Golden Life Check Card” for customers in their 50s and older. The Company also unveiled “Welcome Check Card,” a product designed for foreigners residing in Korea. KB Kookmin Card plans to solidify its No. 1 position in the check card business by offering innovative products and customized services that reflect customers preferences and lifestyles.

In the credit card business area, KB Kookmin Card launched the “Hyedam Card” in line with its “one card” strategy. The number issued of this versatile point card reached 350,000, reflecting its popularity. The “one card” strategy centers on packing a variety of benefits into a single card so that customers can select the benefits of their choice. This strategy has led to a reduction in the social costs associated with issuing multiple cards as well as increased customer value.

Business Foundation for Sustained Growth

KB Kookmin Card solidified its foundation for sustained growth by developing a “Save” service and automatic utility bill pay services based on the vendor lock-in strategy. The “Save” service offers customers a special installment plan when they purchase a product from a participating merchant. These customers pay the amount either in cash or card points during the payment period. In 2012 alone, the service was used for making purchases worth around KRW 127.7 billion. Services offering a discount on phone bills or apartment management fees were applied to new products to induce registrations for automatic payments. The total amount handled through the automatic payment services reached about KRW 2.8 trillion annualized.



Diversifying Profit Sources to Pioneer New Markets

As part of its efforts to enter new markets, KB Kookmin Card moved into the mobile phone receivables factoring business in September 2012. The Company expects this business to generate an annual profit of approximately KRW 20 billion. Meanwhile, alliances were established with a number of online shopping malls and social commerce-related businesses as a way to strengthen its services in connection with helping enrich people's daily lives.

Establishing Customer-Oriented Business System

To make its digital services more accessible to customers, KB Kookmin Card revamped its homepage in March 2012 and launched a "KB Kookmin Card Mobile Home App." The App was downloaded more than one million times only eight months into its launch, reflecting its explosive popularity. Official Twitter and Facebook accounts of KB Kookmin Card were opened to establish real-time communications channel with customers. As of the end of the year, the number of Twitter followers reached around 44,000 and the number of Facebook friends numbered approximately 50,000.

2013 Plans

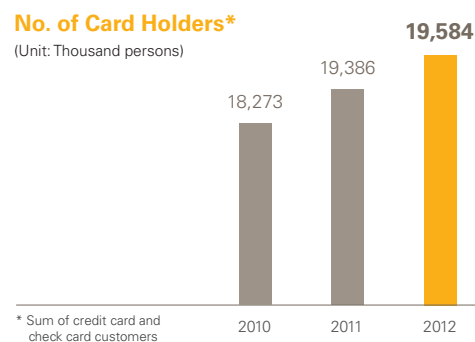
Amid concerns of the domestic economy facing the continued global economic downturn and a strong Korean won, the business environment for the credit card industry is expected to worsen in 2013 due mainly to stringent regulations and the emergence of new market players. KB Kookmin Card has set "overcoming difficulties by strengthening the profit foundation" as its management strategy for 2013, and plans to implement the following four core tasks.

First, we will pursue higher efficiencies in profit and cost management through systematic cost management. A management strategy will be formulated for each customer segment based on card usage amounts, profitability, and risks. We will strengthen our CRM competencies to enable more detailed analysis of customers' payment patterns and thus carry out more effective marketing.

Second, we will identify and cultivate new growth engines. The Company is examining new business types and considering an entry into overseas markets in an effort to deal with the low-growth trend in the domestic market, and to diversify its sources of income. It plans to take the lead in nurturing new markets related to mobile communication.

Third, we will optimize the risk management system to better cope with any changes in the market environment and economic downturns. Forecast models for core risk management indexes will be fine-tuned and risk monitoring systems upgraded. We will explore all options available to more effectively manage all segments of delinquent customers and thus to maximize the collection of arrears.

Fourth, we will further strengthen our socially-responsible management. To this end, we will continually engage in social contribution activities based on four themes – the youth, the elderly, the environment, and the global community. We will pursue win-win management with a focus on protecting the rights and interests of customers.



KB Investment & Securities

KB Investment & Securities opens a new chapter in the world of investments by combining scientific and expertise based investments together with its customer-first mindset

KB Investment & Securities is a comprehensive securities company that provides a wide variety of financial services, including investment banking, institutional business, trading, and retail business. In investment banking, the Company leads the industry in underwriting corporate bond and ABS issues and carries out structured finance transactions based on advanced risk management techniques. Its market positions are strengthening in areas such as M&A advisory services, financial consulting services, IPOs and capital raising, and issuance of equity-linked notes.

In institutional sales, the Company offers to domestic and overseas institutional investors a wide array of quality services based on its outstanding competitive research. These services include brokerage, ETF LP/AP, and sales of financial products. In the trading business, the Company generates stable returns through proprietary trading of equities, bonds, and derivatives. In addition to the futures business that involves domestic and overseas derivatives brokerage, the Company conducts an OTC (Over-The-Counter) derivatives business issuing ELS, a structured derivative product.

In the retail sector, the Company offers comprehensive wealth management services through the extensive branch network of KB Kookmin Bank, which has the largest customer base in Korea. It recently has released the industry's first smartphone trading application as a way to expand into new business areas.

2012 Results

In 2012, despite worsening business conditions at home and abroad and increasing competition in the domestic financial investments industry, KB I&S further bolstered its comfortable lead in the wholesale business and achieved qualitative growth in retail, an area into which it had recently expanded.

Competitiveness in the Wholesale Business Enhanced

In the DCM sector, the Company ranked No. 1 in 2012 for a second consecutive year in underwriting corporate bonds and ABS underwriting and further increased its dominant market share. In the area of financial advisory services for corporate acquisitions, the Company competed alongside large accounting firms and global investment bankers, ranking ninth in the industry league table. This feat represents the initial result of the Company's efforts to go beyond the DCM and diversify its income sources.

Investments for Development of Retail Business

Since launching its retail business in February 2009, the Company has been expanding its branch network and established face-to-face channels in 11 major base areas across the nation. It upgraded its mobile trading system in keeping with the rapid changes in the online business environment triggered by fast-growing users of "smart" devices. The Company increased proportion of its mobile business to 15.3% in 2012 from 8.9% in the previous year. As a result, despite a noticeable drop in the number of stock-trading customers in the middle of difficult environment, the Company made headway in the retail business, improving its market share to an encouraging 1.84%.

New Growth Opportunities Identified

In 2012, the Company preemptively launched an emergency management system in anticipation of a possible decline in its business performance in the wake of the worsening business environment. The Company cancelled plans to increase its personnel and branches and implemented cost control measures. By doing so, it effectively minimized deterioration of profitability. The Company revamped its organization to seize on new opportunities in the fast-changing environment; specifically, it restructured the retail business support structure to respond better to changes in online trading brought on by an increasing use of smart devices.

2013 Plans

The Company has set its strategic goal for 2013 as "achieving stable growth by strengthening inner values with a focus on profitability, and expanding the Company's customer base." Accordingly, it has defined four major tasks – strengthening value-focused management, developing core competencies, implementing customer-first policies, and continuing IT improvement. By actively completing these tasks, the Company will realize continued growth and develop into a comprehensive financial investments company.

Market Share in DCM (Underwriting CBs/ABS)

	2009	2010	2011	2012
No.	3	2	1	1
M/S (%)	11.4	10.8	12.9	13.4

* Source: Bloomberg League Table

KB Life Insurance

By offering advanced insurance services, KB Life Insurance will grow into a premier insurance company alongside its customers

KB Life Insurance is a comprehensive insurance company jointly founded by KB Financial Group and ING Group, a world-leading financial firm. The joint venture established its business foundation with bancassurance, building up manpower and other business bases. Agency marketing and direct marketing channels were set up in 2008, followed by a total consultant channel in 2009, the very first outbound sales channel for KB Financial Group. With these distribution channels in place, KB Life Insurance has developed further into a full-service comprehensive insurance company.

2012 Results

Growth Foundation Developed

KB Life Insurance increased its market share by consistently achieving sales growth based on its 2012 management policy, "building a foundation for joining the top 10." It made improvements in its channel and product portfolio, building a foundation to grow as a comprehensive insurance company focused on profitability. The Company was ranked No. 1 for sixth consecutive years in the call center category of the KSQI (Korean Service Quality Index) in recognition of its customer value-focused corporate culture and superior service quality. It also maintained a top rating for four consecutive years in an evaluation by the Financial Supervisory Service of civil complaints.

Sales Channels Diversified

The Company has been continually diversifying its sales channels since 2008 to develop a stable profit base. It operates 11 branches as its DM channel in pursuit of high-efficiency telemarketing and the highest productivity in the industry. As for the AM channel, the Company has established strategic alliances with 18 blue-chip corporate agencies that each has a nationwide network. In terms of the TC channel, 35 branches are dedicated to providing optimal, comprehensive financial consulting services to customers nationwide.

Continued Growth

Since 2007, its bancassurance product has ranked No. 1 in market share among the bancassurance products sold by KB Kookmin Bank. In 2012 the Company ranked fourth in first premiums in the bancassurance industry. Thanks to its continued channel portfolio improvements, in 2012 the Company recorded a year-on-year rise of 51.6% in premium income, reporting KRW 1,886.4 billion and thus ranking 13th place in the insurance industry. It posted KRW

5,987.9 billion in total assets and KRW 16.6 billion in net income. Since its founding, the Company recorded an annual average growth rate of 57.6% in total assets, the highest in the industry. For four consecutive years since 2009, the Company consistently has remained in the black.

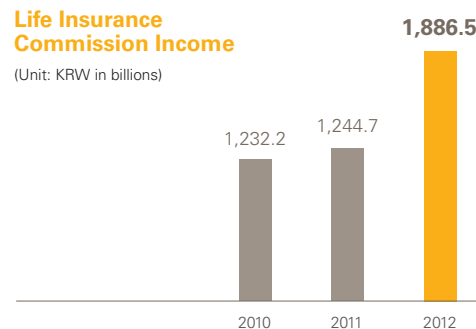
2013 Plans

In 2013 the life insurance market is forecasted to experience difficulties stemming from the ongoing low interest rate trend, various systems changes, and toughening regulations. With the market entering its maturity phase, insurance companies are expected to compete more aggressively. Against the backdrop of such challenging predictions, the Company will build a stable growth foundation by focusing on inner values and strengthening the competitiveness of its core distribution channels. It also will reinforce further its stature as a comprehensive insurance company by continuously revamping its channel portfolio.

The Company will implement a profitability-based sales strategy for its products, including those for protection type insurance and variable annuities. It will focus its competencies on its long-term financial health through risk management system upgrades and asset diversification in response to the low interest rate environment. It will develop products that better reflect market trends, such as an increasing interest in retirement planning in the aging society. It also will introduce smart-finance and other services that cater to emerging social trends through customer-oriented marketing, all as part of its efforts to earn unwavering customer trust.

Life Insurance Commission Income

(Unit: KRW in billions)



KB Asset Management

KB Asset Management generates higher returns for its customers with innovative products, superior strategy and advanced process

Following the global financial crisis, the asset management industry experienced a fund-run episode that KB Asset Management managed to turn into a growth opportunity. After posting a growth rate of 10% year-on-year in operating income in 2010, the Company recorded a growth rate of 32% year-on-year in 2011 and an operating income of KRW 27.8 billion in the first half of 2012, the industry's second-best performance. This series of outstanding performances was a result of the Company's concerted efforts to increase its long-term rate of return based on its growth-type and value-type funds in the area of domestic equity funds, one of its core competencies.

2012 Results

Sustained Growth Achieved

In 2012, KB Asset Management reclassified its domestic equity fund lineup into growth-type funds, value-type funds, and other styles in accordance with global industry standards. The Company focused on increasing the long-term return of the core funds, while refraining from releasing new products. As a result, the overall return rate and AUM both grew substantially.

No. 1 in Domestic Equity Funds

KB Asset Management managed two of the ten domestic equity funds that each exceed KRW 1 trillion in size: "KB Value Focus Fund A" and "KB Growth Focus Fund." With a three-year yield rate of 70.70%, the former ranked No. 1 among domestic active funds in 2012. Its cumulative rate of return reached 93.37%.

"KB Mid Small-cap Securities Master Fund A" recorded a return rate of 34.24% in 2012, more than three times as high as those of the KOSPI (9.38%) and the industry average (8.37%). In fact, it was the industry's best performing equity fund in 2012. It has remained in the top echelon in terms of return rate since its launch, living up to the media attention it received upon its introduction.

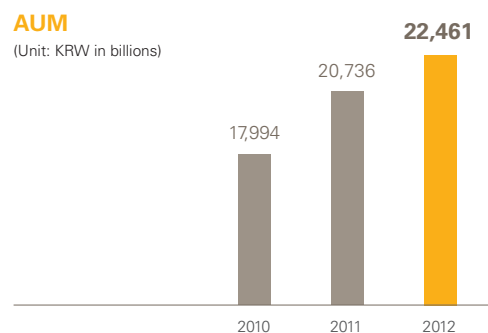
Brand Value Enhanced

In recognition of the consistently high return rates and outstanding performances of its funds, KB Asset Management has been given various awards. In 2012, it received the grand prize in the management company category at the Korea Securities Awards of the Seoul Economic Daily, on top of the "Best Domestic Equity Fund Award of 2012" from Money Today, the "Best Domestic Fund Award of 2012" from the Herald Business, a first prize in the asset

management category at the 2012 Securities Expert Awards of the Maeil Business Daily, the "Best Equity Fund Award" at the 2013 Korea Economic Daily Funds Awards, and the "Best Fund Award" in the active equity fund category at the 2012 Korean Fund Awards of the Maeil Business Daily.

2013 Plans

Having increased the size of its equity funds by more than KRW 1 trillion in the last few years, KB Asset Management plans to continue the growth trend in 2013. In addition to maintaining the outstanding long-term return rates of its domestic equity funds, the Company will invest in emerging-market bond funds that are developing into alternative investment tools in the era of low interest rate products, as well as in infrastructure projects, a new growth driver. By doing so, the Company will strengthen further its stature as a comprehensive asset management company befitting the reputation of KB Financial Group.



KB Real Estate Trust

As a reliable partner in real estate finance, KB Real Estate Trust will manage customer assets and increase their value in the most optimal manner

In 2012 Korea's real estate market continued to experience difficulties attributable to several factors: a sluggish housing market, increasing unsold apartments in metropolitan areas, a sharp drop in the number of housing transactions as a result of growing household debts, a decline in PF for real estate development projects, and further restructuring of construction companies. Against this backdrop, real estate developers are intensifying their demand for real estate trust products as a way to eliminate associated risks. However, increasing competition for commissions fueled by new real estate trust companies has resulted in a drop in the trust revenue rate.

2012 Results

Business Diversified

In 2012, the Company actively diversified its business despite the sluggish market conditions, thereby establishing a basis for continued growth. As part of the diversification effort, the Company took part in the creation of a blind fund of KB Financial Group and arranged the successful launch of the "KB Star Office Private Real Estate Investment Trust No. 1." By bolstering its competencies in releasing and managing REITs, the Company released the "KB Bookook No. 1 Development REIT," thereby listing the first development-specialized REITs on the stock exchange. The Company paid out dividends for its previously established REITs at a rate above the market average. In addition to holding presentations in an effort to lead the urban-type housing market, the Company continued to invest in PFVs for multipurpose facility development projects, industrial complexes, and other urban development projects.

Market Dominance Strengthened

As of the end of June 2012, the Company's total entrusted assets amounted to KRW 20,812.3 billion, the largest among the eleven real estate trust companies in Korea. Its net income also went up 39.2% year-on-year. This is a result of the business activities the Company carried out in the face of the difficult market environment and the synergies it generated in cooperation with its affiliates, including KB Kookmin Bank.

Management Efficiency Enhanced

KB Real Estate Trust amended its risk management policies to improve the land trust risk management process and adopted new guidelines to improve customer relations, all part of its efforts

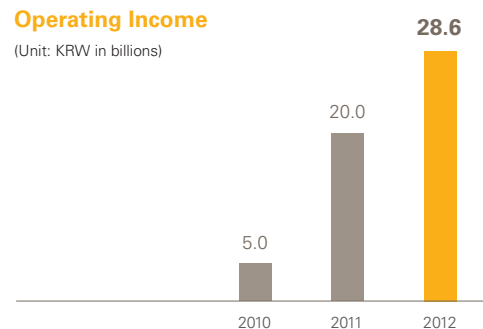
to strengthen the risk management of the trust business. The Company also is improving management efficiencies by revamping its organization and expanding its performance-centered culture. It is working on strengthening employee competencies through systematic training.

2013 Plans

KB Real Estate Trust will strive to offer customers value that goes beyond real estate services by adopting new investment methods and financial techniques. To this end, the Company will strengthen its business network and improve its business environment. It plans to expand REITs profits with early identification of blue-chip investment vehicles. In addition, it will secure various profit sources by developing low-risk products in relation to the Trust Act and by diversifying the Company's business. Moreover, through management-by-principle the Company will enhance the KB brand value.

Operating Income

(Unit: KRW in billions)





KB Investment will grow into an investment specialist that helps promising companies succeed by nurturing their growth potentials

As a partner supporting the value enhancement of companies in which it invests, KB Investment specializes in venture investments in unlisted SMEs and start-up companies, growth capital investments in mid-sized companies, and private equity investments. The Company is nurturing its investment entities into blue-chip companies with a focus in biotech industries (biotechnology, pharmaceutical, medical equipment), in clean-tech industries (new renewable energy and secondary battery), and in next-generation growth industries (alternative energy)—which will lead our future—and, most importantly, in IT industries (mobile communication, semiconductors, and display), Korea's core strength.

2012 Results

IPO Market Dominance Maintained

In 2012, evolving budgetary crises in the US and in the Eurozone led to increased volatility in the KOSDAQ market, the main source of investment returns for the Company. Despite these market conditions, at the end of 2012 KB Investment recorded KRW 123.4 billion in equity capital, KRW 1,425 billion in assets under management (AUM), and KRW 5.5 billion in net income. As a top-notch investment company, it is leading the domestic venture capital and PEF markets. In particular, the Company took public 108 venture firms, or 10.7% of the total, on the KOSDAQ in 2012, the highest in the industry. As such, the Company has been effective in playing its investment partner role, fostering the growth of venture firms and SMEs.

AUM Increased

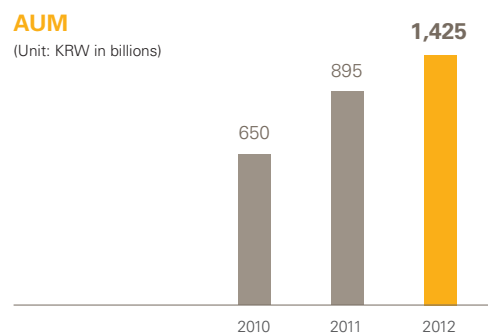
In 2012, KB Investment created the "KoFC Value Up PEF" worth KRW 65 billion, the "KT Global Investment Partnership PE" worth KRW 475 billion, and a venture fund amounting to around KRW 50 billion. As a result, the Company's total AUM rose to KRW 1,425 billion.

Investments in New Growth Engine Industry

In 2012 alone, KB Investment invested a total of KRW 126.3 billion in SMEs and mid-value companies in the next-generation IT, clean-tech, and life science industries, growth drivers that will shape the future of the Korean economy. By actively investing in these industries, the Company is laying a foundation for leadership while promoting the growth of relevant industries.

2013 Plans

KB Investment is making diverse efforts for continued growth, such as increasing personnel competencies and organizational efficiencies, establishing a solid base for potential profits by expanding the blue-chip investments portfolio, and maximizing investment returns by constantly revamping its risk management system. The Company plans to increase the AUM to KRW 2 trillion by 2014 in order to grow into Korea's No. 1 venture capital company, and to secure market competencies through advancing into Asian investment markets.



KB Credit Information

With outstanding experts and advanced systems, KB Credit Information will increase market confidence and contribute to establishing a credible society

In addition to engaging in its main business areas of debt collection and lease verification, KB Credit Information handles credit checks and issuance of civil affairs documents. With first-rate experts in debt collection and lease verification, the Company is offering services that are top-notch in the industry by effectively leveraging its nationwide organizational network and state-of-the-art debt management systems. In addition to these services, KB Credit Information contributes to the establishment of a sound credit society by improving the asset quality and minimizing the reputation risk of creditors. The Company maintains a top market position in assets, productivity, and services. Its sales in 2012 reached KRW 58.6 billion, a year-on-year increase of 6.7%.

2012 Results

Foundation for Sustained Growth Established

KB Credit Information set “building a foundation for sustainable growth” by bolstering its competitiveness in collecting debts of the Group and enhancing management efficiencies as its 2012 strategic direction. It focused mainly on reducing the delinquency ratio by actively collecting NPLs (Non-Performing Loans), increasing extraordinary gains through the collection of written-off assets, keeping its organization and personnel nimble, and expanding the secured NPL management business.

As a result of these efforts, debt collection within KB Financial Group went up by approximately 18.7% from KRW 397.4 billion in 2011 to KRW 471.9 billion in 2012 and continued its leadership despite a fierce competition. The Company curtailed more personnel expenses than planned by enhancing management efficiencies and also brought down non-personnel expenses by increasing efficiencies in branch operations. With secured NPL accounts worth KRW 215 billion awarded by the Group, the Company expanded its business scope in managing secured NPLs and thus generated about KRW 900 million of additional revenue.

2013 Plans

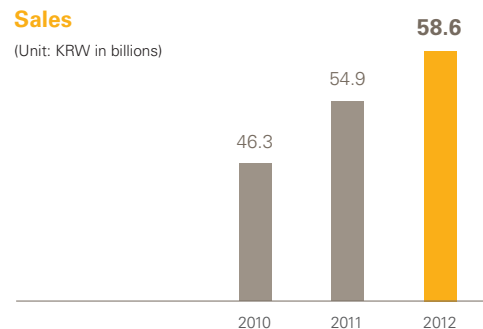
The Company’s management strategy direction for 2013 is to build a foundation for stable growth and enhance value within the Group. Focus will be placed on maximizing the collection of debts owed to the Group, achieving profitability-centered management rationalization, and boosting productivity by strengthening sales capacities.

To maximize debt collection within the Group, the Company will improve incentives scheme for outstanding collection performances and promote joint debt collection with other affiliates within the group. The Company will expand its secured NPLs business by increasing the size of secured NPLs under management, cultivating secured NPLs specialists, and establishing an efficient secured NPLs management system. By promoting the non-Group lease verification business, the Company will increase low-cost sales and thus enhance profitability. The Company will also improve its commission system to boost productivity of collectors and to attract and retain experienced and talented collectors. By building a debt collection knowledge management system, the business capabilities of collectors will be strengthened.

Conditions in the debt collection business may worsen in 2013 as costs are expected to rise due to several factors, including decreasing repayment capabilities of debtors, increasing financial burdens following some collectors’ lawsuits in relation to retirement benefit, and strengthening regulations following the amendment of the Resident Registration Act. However, volume of secured NPLs are expected to grow as the economic downturn continues to take hold throughout the year, the entrustment of tax receivables to the private sector increases, and the adoption of the IFRS will likely boost NPL sales to third party. The Company will take full advantage of these developments and take a big step towards becoming the industry’s top credit information company.

Sales

(Unit: KRW in billions)



KB Data Systems

KB Data Systems offers optimal IT services based on in-depth understanding of finance and extensive IT expertise

KB Data Systems provides first-rate IT services based on its top-notch technological prowess gained from the wide range of projects undertaken to advance the IT-based services of KB Financial Group. The Company's services include financial IT consulting; integration of the entire process ranging from system analysis and design to development and testing; and IT outsourcing that requires stable maintenance and management of customer information systems and IT resources in accordance with customer needs.

2012 Results

Leadership in Financial IT

To provide optimal IT solutions in the ever-changing IT environment, KB Data Systems segmented its business areas into IT systems integration and IT systems management, and established an optimal organizational system accordingly. By focusing on thorough quality management, KB Data Systems builds the most optimal IT systems and identifies the effective operation measures for its affiliates within the Group.

Based on its extensive technological prowess accumulated through various projects, KB Data Systems develops a wide array of optimal financial IT solutions to help advance its customers' IT systems. As of the end of 2012, the Company has developed and commercialized 37 solutions, including the "Wise-Financial Management System," a solution for monitoring the fund status of financial institutions. It has been developing solutions in cutting-edge IT, such as smartphone-based financial services and SNS.

Various IT Projects Conducted within the Group

In 2012, KB Data Systems, in its role as the Group's IT partner, successfully completed various projects involving the development and upgrade of the IT systems of its KB affiliates. These projects include setting up the "Comprehensive Real Estate Information System," an IT system for KB Kookmin Bank's R-easy service; upgrading KB Kookmin Card's "Push Service" and daily life service parts of Internet banking; enhancing KB Investment & Securities' mobile services; and integrating the Group's smart device applications. The Company also built systems related to information management, accounting, call centers, and loan/collateral management, all to provide IT business support to KB Savings Bank, the latest subsidiary of the Group.

KB Data Systems has established a "Smart-Banking Research Institute" and is actively developing smart-banking applications for its affiliates' SNS-related operations, including KB Kookmin Bank's "Rockstar Blog."

2013 Plans

In 2013, KB Data Systems will engage in diverse activities to offer top-quality IT services to its affiliates, placing the highest priority on increasing user satisfaction and enhancing its technological competencies. To lead financial IT trends and apply state-of-the-art technologies to the Group's IT-based operations, KB Data Systems will strengthen its internal competencies with a focus on smart-banking. It will also diversify its business structure by expanding into the social media business, including the establishment and maintenance of SNS.

In addition, by defining a clear vision and business for each business sector, the Company will lay a base for sustainable growth from a mid- and long-term perspective. As for IT systems management, the Company will pursue full satisfaction in the IT services it offers through higher technological competencies and thorough quality controls as well as remain true to its role as an IT cost center and contribute to improving Group IT cost efficiencies. Moreover, by taking every preventive measure available against hacking and other security breaches, the Company will operate its affiliates' IT systems in the most secured method possible. As for IT systems integration, the Company will take steps necessary for carrying out the role of an IT hub that can link Group operations with "big data" and other latest IT technologies. The role includes coordinating IT project operators and managers and being an IT consolidator who can efficiently apply outstanding third-party solutions to affiliates' daily operations.

KB Savings Bank

KB Savings Bank will set standard for industry by growing into a sound and reliable savings bank that customers trust and respect

KB Savings Bank commenced business in January 2012 as the tenth subsidiary of KB Financial Group following the absorption of a distressed savings bank. Its management philosophy is “leading savings bank that contributes to the stabilization of the banking sector catering to low-income class”. The Bank provides loan and deposit services to households and SMEs that are overlooked by top-tier banks due to their relatively high risk profiles or insufficient collateral. Its major deposit products include time deposits, periodical deposits, and free installment deposits. Its loan products include “Sunshine Loan,” which provides loans to low income customers at low interest rates; “KB One Stop Loan,” a loan offered in connection with KB Kookmin Bank’s loan products; and a securities-purchase loan that uses securities as collateral.

2012 Results

Business Capacity Strengthened

Since 2011, the business environment of the savings bank industry has been on a downward trend owing to intensive restructuring measures applied to insolvent savings banks and stringent capital requirements. The credit standings of savings banks are declining, leading to large-scale customer flights. There is also a dire need for the development of a unique profit model that can help savings banks achieve sustained growth in the sector dedicated to low-income class, a highly competitive market.

Against this backdrop, in 2012 KB Savings Bank focused on management-by-principle, thereby establishing itself as a clean bank. In addition to leveraging the financial business know-how of KB Financial Group, KB Savings Bank developed a wide array of loan products that satisfy customer needs, thereby restoring the customer relations that had a temporary setback. In addition, improvements were made to the business process, strengthening the internal controls. KB Savings Bank expanded its profit base by increasing collateralized household assets, and diversified its loan portfolio. It put forward various efforts, including joint sales with KB Kookmin Bank, to create KB synergy and thus strengthen its business capacity. As a result, total loans increased to KRW 424.3 billion at the end of 2012 from KRW 395.1 billion at the start of its business.

Clean Assets

Through a constant monitoring of market and credit risks, KB Savings Bank endeavors to pre-empt delinquencies. To establish a system-based loan screening process, the Bank is building CSS

and CRS credit appraisal systems. A taskforce has been launched to improve the quality of non-performing assets which the Bank inherited from its predecessor. It customized collection strategies to the varying types of debtors, resulting in a total debt collection of KRW 192.1 billion.

Sound Corporate Culture Established

KB Savings Bank has adopted an HR system in line with KB Financial Group’s HR policy, thus laying a foundation for strengthening employee competencies and thereby enabling its employees to share the KB value. Upon the absorption of the distressed bank in July 2012, the Bank converted most of the workers hired on a contractual basis into regular employees, resulting in stronger organizational solidarity and loyalty. Moreover, various training systems and programs have been instituted to improve job skills. The Bank also engaged in numerous activities that contribute to the local community, including running soup kitchens and making donations.

2013 Plans

KB Savings Bank plans to concentrate on growing sound assets. In the area of personal loans, it will increase both unsecured loans through KB Kookmin Bank’s loan program and loans backed by sound collateral. As for corporate loans, the Bank will pursue stable growth by strengthening its appraisal capabilities and mainly focusing on short-term secured loans with a loan period of less than a year. In the area of deposits of which time deposits currently make up 89%, the Bank will focus on increasing demand deposits that carry a relatively low funding cost in order to diversify its funding structure.

To build a basis for sustained growth, KB Savings Bank plans to offer various training programs that are designed to strengthen internal competencies, including job skills and appraisal capabilities. The Bank will also continue systems development as a way to bolster its growth foundation. In addition to revamping its internal business process, it will overhaul its IT infrastructure.

It is forecasted that in 2013 worsening asset quality and household loans of low credit holders will continue to pose a serious risk due to the overall economic doldrums. Against this backdrop, KB Savings Bank will upgrade its risk management system to preempt delinquencies. It also will promote a rational loan screening process and systematically manage credit risks by building an integrated collateral system and improving the loan follow-up system.

Report of Independent Auditors



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PROFESSIONAL **SAMIL**

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

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

We have audited the accompanying separate statements of financial position of KB Financial Group Inc. (the "Company") as of December 31, 2012 and 2011, and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of KB Financial Group Inc. as of December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("K-IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 12, 2013

This report is effective as of March 12, 2013, 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 separate 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.

Separate Statements of Financial Position

December 31, 2012 and 2011

KB FINANCIAL GROUP INC.

(in millions of Korean won)

	Notes	2012	2011
Assets			
Cash and due from financial institutions	4,5,6,26	₩ 96,234	₩ 32,031
Loans	4,5,7	25,000	60,000
Investments in subsidiaries	8	17,944,848	17,773,322
Property and equipment	9	351	759
Intangible assets	10	9,122	10,531
Deferred income tax assets	11,24	3,800	2,445
Other assets	4,5,12	310,673	631,602
Total assets		₩ 18,390,028	₩ 18,510,690
Liabilities			
Debts	4,5,13	₩ -	₩ 130,000
Debentures	4,5,14	-	49,988
Defined benefit liabilities	15	1,384	992
Current income tax liabilities	24	257,535	578,729
Other liabilities	4,5,16	46,767	34,701
Total liabilities		305,686	794,410
Equity			
Share capital	17	1,931,758	1,931,758
Capital surplus	17	13,513,809	13,513,809
Retained earnings	17	2,638,775	2,270,713
Total equity		18,084,342	17,716,280
Total liabilities and equity		₩ 18,390,028	₩ 18,510,690

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

Separate Statements of Comprehensive Income

Years Ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC.

(In millions of Korean won except per share amounts)

	Notes	2012	2011
Interest income		₩ 6,018	₩ 26,999
Interest expense		(3,025)	(41,571)
Net interest income(expense)	4,19	2,993	(14,572)
Fee and commission income		-	-
Fee and commission expense		(4,130)	(6,079)
Net fee and commission income(expense)	20	(4,130)	(6,079)
Net other operating income	21	687,925	-
General and administrative expenses	22	(41,597)	(41,711)
Operating profit(loss) before provision for credit losses		645,191	(62,362)
Provision for credit losses		-	-
Operating profit(loss)		645,191	(62,362)
Net non-operating expense	23	(312)	(2,863)
Profit(loss) before tax		644,879	(65,225)
Income tax benefit	24	1,356	1,547
Profit(loss) for the year		646,235	(63,678)
Other comprehensive income(loss) for the year, net of tax		-	-
Total comprehensive income(loss) for the year		₩ 646,235	₩ (63,678)
Earnings(losses) per share			
Basic earnings(losses) per share	25	₩ 1,673	₩ (173)
Diluted earnings(losses) per share	25	1,668	(173)

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

Separate Statements of Changes in Equity

Years Ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC.

(In millions of Korean won)

	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income(loss)	Retained Earnings	Total Equity
Balance at January 1, 2011	₩ 1,931,758	₩ 13,513,809	₩ -	₩ 2,375,554	₩ 17,821,121
Comprehensive loss					
Loss for the year	-	-	-	(63,678)	(63,678)
Total comprehensive loss	-	-	-	(63,678)	(63,678)
Transactions with shareholders					
Dividends	-	-	-	(41,163)	(41,163)
Total transactions with shareholders	-	-	-	(41,163)	(41,163)
Balance at December 31, 2011	₩ 1,931,758	₩ 13,513,809	₩ -	₩ 2,270,713	₩ 17,716,280
Balance at January 1, 2012	₩ 1,931,758	₩ 13,513,809	₩ -	₩ 2,270,713	₩ 17,716,280
Comprehensive income					
Profit for the year	-	-	-	646,235	646,235
Total comprehensive income	-	-	-	646,235	646,235
Transactions with shareholders					
Dividends	-	-	-	(278,173)	(278,173)
Total transactions with shareholders	-	-	-	(278,173)	(278,173)
Balance at December 31, 2012	₩ 1,931,758	₩ 13,513,809	₩ -	₩ 2,638,775	₩ 18,084,342

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

Separate Statements of Cash Flows

Years Ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC.

(In millions of Korean won)

	Note	2012	2011
Cash flows from operating activities			
Profit(loss) for the year		₩ 646,235	₩ (63,678)
Adjustment for non-cash items			
Depreciation and amortization		1,487	1,581
Share-based payments		3,641	2,534
Net interest income		(765)	(349)
Net other expense		4,183	6,565
		8,546	10,331
Changes in operating assets and liabilities			
Due from financial institutions		12,000	(12,000)
Deferred income tax assets		(1,355)	(1,547)
Other assets		1,056	2,599
Other liabilities		(3,578)	(3,766)
		8,123	(14,714)
Net cash generated from (used in) operating activities		662,904	(68,061)
Cash flows from investing activities			
Acquisition of investments in subsidiaries		(171,526)	(100,000)
Collection of loans		35,000	100,000
Acquisition of property and equipment		(114)	(233)
Acquisition of intangible assets		(313)	(3,850)
Disposal of intangible assets		-	895
Net decrease(increase) in guarantee deposits paid		8,427	(7,555)
Others		(2)	-
Net cash provided by (used in) investing activities		(128,528)	(10,743)
Cash flows from financing activities			
Increase in debts		170,000	130,000
Decrease in debts		(300,000)	-
Redemption in debentures		(50,000)	(750,000)
Dividends		(278,173)	(41,163)
Net cash used in financing activities		(458,173)	(661,163)
Net increase(decrease) in cash and cash equivalents		76,203	(739,967)
Cash and cash equivalents at the beginning of the year	26	20,028	759,995
Cash and cash equivalents at the end of the year	26	₩ 96,231	₩ 20,028

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

Notes to Separate Financial Statements

December 31, 2012 and 2011

KB FINANCIAL GROUP INC.

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 the 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 associated companies. The headquarters are located at 9-1 Namdaemunro 2-ga, Jung-gu, Seoul. The Company's paid in capital as of December 31, 2012, is ₩ 1,931,758 million. In 2011, Kookmin Bank spun off its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., and KB investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. The Company established KB Savings Bank Co., Ltd. in January 2012.

The Company is authorized to issue up to 1 billion shares. The Company has been listed on the Korea Exchange ("KRX") since October 10, 2008, and listed on the New York Stock Exchange ("NYSE") for its American Depositary Shares ("ADS") since September 29, 2008.

2. Basis of Preparation

2.1 Application of K-IFRS

The Company's financial statements for the annual period beginning on January 1, 2012, have been prepared in accordance with Korean-IFRS("K-IFRS"). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea. The transition date, according to K-IFRS 1101, from the previous accounting principles generally accepted in the Republic of Korea ("Previous K-GAAP") to K-IFRS is January 1, 2010.

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

The separate financial statements were prepared in accordance with K-IFRS 1027, *Consolidated and Separate Financial Statements*.

New standards, amendments and interpretations issued but not effective for the year beginning January 1, 2012, and not early adopted by the Company are as follows:

Amendments to K-IFRS 1019, *Employee Benefits*

According to the amendments to K-IFRS 1019, the corridor approach for actuarial gains and losses is not allowed anymore. Accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. Past service costs incurred under changes of plans are recognized immediately, and the amendment replaces the interest cost on the defined benefit obligation, and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. This amendment is effective for the Company as of January 1, 2013. The Company is assessing the impact of application of the amended K-IFRS 1019 on its separate financial statements.

Enactment of K-IFRS 1113, *Fair value measurement*

K-IFRS 1113 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across K-IFRS. K-IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards

within K-IFRS. K-IFRS 1113 is effective for the Company as of January 1, 2013. The Company expects that the enactment would not have a material impact on the separate financial statements of the Company.

Amendments to K-IFRS 1001, *Presentation of Financial Statements*

K-IFRS 1001, *Presentation of Financial Statements*, was amended to require other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Company expects that the application of this amendment would not have a material impact on its separate financial statements.

Enactment of K-IFRS 1110, *Consolidated Financial Statements*

K-IFRS 1110, *Consolidated Financial Statements*, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. K-IFRS 1110 will be effective for annual periods beginning on or after January 1, 2013, and the Company is reviewing the impact of the K-IFRS 1110.

Enactment of K-IFRS 1111, *Joint Arrangements*

K-IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Company is reviewing the impact of the amended K-IFRS 1111.

Enactment of K-IFRS 1112, *Disclosures of Interests in Other Entities*

K-IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Company is reviewing the impact of the amended K-IFRS 1112.

2.2 Measurement Basis

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

2.3 Functional and Presentation Currency

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

2.4 Significant Estimates

The preparation of the separate financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on assets(liabilities) and incomes(expenses). The managements' estimate of outcome may differ from an actual outcome if the managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

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

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

2.4.1 Deferred income taxes

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

2.4.2 Defined benefit obligation

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

3. Significant Accounting Policies

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

3.1 Cash and cash equivalents

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

3.2 Loans and receivables

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

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

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

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

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

3.3 Investments in Subsidiaries

Investments in subsidiaries are accounted at cost method in accordance with K-IFRS 1027.

3.4 Property and equipment

Recognition and Measurement

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

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

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

Depreciation

Land is not depreciated, whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Company. The depreciable amount of an asset is determined after deducting its residual value.

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

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

Property and equipment	Depreciation method	Estimated useful lives
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 years

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

3.5 Intangible assets

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

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

Intangible assets	Amortization method	Estimated useful lives
Software	Straight-line	4 years
Others	Straight-line	4 years

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

3.6 Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that a non-financial asset except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

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

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss.

3.7 Provisions

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

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

3.8 Equity instrument issued by the Company

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

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

3.9 Revenue recognition

Revenue shall be recognized when all the following conditions have been satisfied:

- a) The amount of revenue can be measured reliably.
- b) It is probable that the economic benefits associated with the transaction will flow to the company.
- c) Specific conditions are satisfied for activities.

3.9.1 Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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

3.9.2 Fee and commission income

Fee and commission income is recognized on an accrual basis in accordance with the substance of transaction.

3.9.3 Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

3.10 Employee compensation and benefits

Post-employment benefit: Defined benefit plans

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

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

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

Past service cost arises when the Company introduces a defined benefit plan that attributes to past service or changes the benefits payable for past service under an existing defined benefit plan. Such past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, past service cost is recognized immediately.

Short-term employee benefits

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

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Company has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

Share-based payment

The Company operates share-based payment arrangements granting awards to directors and employees of the Company. The Company has a choice of whether to settle the awards in cash or by issuing equity instruments for a share-based payment transaction at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company determined that it has a present obligation to settle in cash because the Company has a past practice and a stated policy of settling in cash. Therefore, the Company accounts for the transaction in accordance with the requirements of cash-settled sharebased payment transactions.

The Company measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Company remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

Termination benefits

Termination benefits are employee benefits payable as a result of either the Company's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Company recognizes termination benefits as a liability and an expense when, and only when, the Company is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. The Company is demonstrably committed to a termination when, and only when, the Company has a detailed formal plan for the termination and is without realistic possibility of withdrawal. Where the termination benefits fall due more than 12 months after the end of reporting period, they are discounted using the appropriate discount rate.

Reclassification

As discussed in Note 22, employee benefits for the year ended December 31, 2011, were reclassified to conform with the December 31, 2012 financial statement presentation. This reclassification has no impact on the previously reported profit for the year or equity.

3.11 Income tax expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in

one period but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation or expenses that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Company offsets current income tax assets and current income tax liabilities if, and only if, the Company (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based of assets and liabilities and their carrying amount in the financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company offsets deferred income tax assets and deferred income tax liabilities when the Company has a legally enforceable right to set off current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Company which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Company, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Company recognizes its uncertain tax positions in the financial statements based on the guidance in K-IFRS 37. A liability related to an uncertain tax position is recognized as the best estimate of expenditure if the uncertain tax position is probable of resulting in additional payment to the tax authorities. Meanwhile assets related to uncertain tax positions, caused by a claim for rectification or an appeal for refund claimed from the tax authorities related to additional assessments, are treated as contingent assets under K-IFRS 37. Therefore, tax expenses are recognized in the financial statements when the uncertain tax position is probable of resulting in additional payment to the tax authorities, while tax benefits are recognized only when the tax refund is virtually certain.

The Company classifies interest and penalties related to uncertain tax positions as a component of income tax expense.

3.12 Earnings per share

The Company calculates basic earnings per share amounts and diluted earnings per share amounts for profit or loss attributable to ordinary equity holders and presents them in the statement of comprehensive income. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Company adjusts profit or loss attributable to ordinary equity holders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares including convertible bond and share option.

3.13 Operating segments

The Company is composed of a single operating segment. Therefore, disclosures on other segments are omitted in accordance with K-IFRS No.1108, *Operating Segments*.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Risk Management Policy

The financial risks that the Company is exposed to are credit risk, market risk and liquidity risk.

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

The Company's risk management system focuses on increasing transparency, developing the risk management environment, and the preemptive response to risk due to rapid changes in the financial environment to support the Company's long-term strategy and business decisions efficiently. Credit risk, market risk and liquidity risk have been recognized as the Company's key risks. These risks are measured in Economic Capital or VaR (Value at Risk) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Company's target risk appetite, approves significant risk matters and reviews the level of risks that the Company is exposed to and the appropriateness of the Company's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Company's risk management.

Risk Management Department

The Risk Management Department is responsible for conducting work processes, procedures and detailed policies.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk is considered.

4.2.2 Credit Risk Management

The Company measures expected losses on assets that are subject to credit risk management and uses it as a management indicator.

4.2.3 Maximum exposure to credit risk

The Company's maximum exposures of financial instruments to credit risk without consideration of collateral values as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Due from financial institutions	₩	96,234	₩	32,031
Loans		25,000		60,000
Other financial assets		20,226		28,304
	₩	141,460	₩	120,335

4.2.4 Credit risk of loans

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

The Company recognizes an impairment loss on loans carried at amortized cost when there is any objective indication of impairment. Under K-IFRS, an impairment loss is based on losses incurred at the end of the reporting period. Therefore, the Company does not recognize losses expected as a result of future events. The Company measures inherent incurred losses on loans and presents them in the financial statements through the use of an allowance account which is offset against the related loans.

Loans are classified as follows:

(in millions of Korean won)

Loan before allowances	2012		2011	
	Corporate loans	Percentage (%)	Corporate loans	Percentage (%)
Neither past due nor impaired	₩ 25,000	100.00	₩ 60,000	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
	25,000	100.00	60,000	100.00
Allowances	-	-	-	-
Carrying amount	₩ 25,000	100.00	₩ 60,000	100.00

Credit quality of loans that are neither past due nor impaired:

(in millions of Korean won)

	2012		2011	
Grade 1	₩	25,000	₩	60,000
Grade 2		-		-
Grade 3		-		-
Grade 4		-		-
Grade 5		-		-
	₩	25,000	₩	60,000

Credit quality of loans is classified as follows, according to the probability of default:

	Range of PD(%) (Probability of Default)
Grade 1	0.0 ~ 1.0
Grade 2	1.0 ~ 5.0
Grade 3	5.0 ~ 15.0
Grade 4	15.0 ~ 30.0
Grade 5	30.0 ~

4.2.5 Credit risk concentration analysis

The details of the Company's loans by country, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		2012			
		Corporate loans	%	Allowances	Carrying amount
Korea	₩	25,000	100.00	₩ -	₩ 25,000
	₩	25,000	100.00	₩ -	₩ 25,000

(in millions of Korean won)

		2011			
		Corporate loans	%	Allowances	Carrying amount
Korea	₩	60,000	100.00	₩ -	₩ 60,000
	₩	60,000	100.00	₩ -	₩ 60,000

The details of the Company's loans by industry as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 25,000	100.00	₩ -	₩ 25,000
	₩ 25,000	100.00	₩ -	₩ 25,000

(in millions of Korean won)

	2011			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 60,000	100.00	₩ -	₩ 60,000
	₩ 60,000	100.00	₩ -	₩ 60,000

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Company manages its liquidity risk through analysis of the contractual maturity of all financial assets and liabilities. The Company discloses them by maturity group: On demand, up to one month, between over one month and three months, between over three months and twelve months, between over one year and five years, and over five years.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and, thus, differs from the amount in the financial statements which are based on the present value of expected cash flows in some cases. The amount of interest to be received on assets or paid on liabilities calculated using a floating interest rate, is measured on the assumption that the current interest rate would be the same upon maturity.

4.3.2. Liquidity risk management

The liquidity risk is managed by liquidity management principles and related guideline which are applied to the risk management policies and procedures that address all the possible risks that arise from the overall business of the Company.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

The remaining contractual maturity of financial assets and liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012												
	On demand		Up to 1 month		1-3 months		3-12 months		1-5 years		Over 5 years		Total
Financial assets													
Due from financial institutions ¹	₩	11,251	₩	85,416	₩	-	₩	-	₩	-	₩	-	96,667
Loans		-		100		200		25,300		-		-	25,600
Other financial assets		-		8		-		20,358		-		-	20,366
	₩	11,251	₩	85,524	₩	200	₩	45,658	₩	-	₩	-	142,633
Financial liabilities													
Other financial liabilities	₩	-	₩	874	₩	-	₩	286	₩	-	₩	-	1,160
	₩	-	₩	874	₩	-	₩	286	₩	-	₩	-	1,160

(in millions of Korean won)

	2011												
	On demand		Up to 1 month		1-3 months		3-12 months		1-5 years		Over 5 years		Total
Financial assets													
Due from financial institutions ¹	₩	20,107	₩	-	₩	-	₩	-	₩	-	₩	-	20,107
Loans		-		292		583		12,335		51,460		-	64,670
Other financial assets		-		8,608		-		20,208		-		-	28,816
	₩	20,107	₩	8,900	₩	583	₩	32,543	₩	51,460	₩	-	113,593
Financial liabilities													
Debts	₩	-	₩	-	₩	-	₩	130,000	₩	-	₩	-	130,000
Debentures		-		-		50,663		-		-		-	50,663
Other financial liabilities		-		647		880		5		-		-	1,532
	₩	-	₩	647	₩	51,543	₩	130,005	₩	-	₩	-	182,195

¹ The amounts of ₩ 3 million and ₩ 12,003 million which are restricted amounts due from the financial institutions as of December 31, 2012 and 2011, respectively, are excluded.

(in millions of Korean won)

	2011											
	Up to 3 months		3~6 months		6~12 months		1~3 years		Over 3 years		Total	
Interest-bearing assets												
Due from financial institutions	₩	20,028	₩	-	₩	-	₩	-	₩	-	₩	20,028
Loans		60,000		-		-		-		-		60,000
	₩	80,028	₩	-	₩	-	₩	-	₩	-	₩	80,028
Interest-bearing liabilities												
Debts	₩	-	₩	130,000	₩	-	₩	-	₩	-	₩	130,000
Debentures		50,000		-		-		-		-		50,000
	₩	50,000	₩	130,000	₩	-	₩	-	₩	-	₩	180,000
Gap	₩	30,028	₩	(130,000)	₩	-	₩	-	₩	-	₩	(99,972)
Accumulated gap	₩	30,028	₩	(99,972)	₩	(99,972)	₩	(99,972)	₩	(99,972)		
Percentage (%)		37.52		(124.92)		(124.92)		(124.92)		(124.92)		

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk at a 99.94% confidence level. The measurement result of risk as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
	₩		₩	
Interest rate VaR	₩	208	₩	726

During the year ended December 31, 2012, the Company changed its method of calculating interest rate impact from simulation method by applying probable interest rate scenario to historical simulation method by making use of historical interest rate data. These changes are for a more sophisticated interest rate risk measurement, considering the practical scenarios, the model appropriateness, practical application as well as easy comprehension.

4.5. Capital Adequacy

The Company is a financial holding company under the Financial Holding Companies Act. It must maintain a consolidated BIS ratio above 8% based on Basel I in accordance with the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies.

The details of the Company's consolidated BIS ratio as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Equity Capital:	₩	26,907,004	₩	25,062,681
Tier I Capital		20,595,885		19,495,671
Tier II Capital		6,311,119		5,567,010
Risk-weighted assets:		193,510,143		192,812,547
Credit risk		187,465,230		187,851,397
Market risk		6,044,913		4,961,150
Capital adequacy ratio(%):		13.90		13.00
Tier I Capital(%)		10.64		10.11
Tier II Capital(%)		3.26		2.89

5. Financial Assets and Financial Liabilities

Financial assets and liabilities are measured at fair value or amortized cost.

The carrying amounts and fair value of financial assets and liabilities by category as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Carrying amount		Fair value	
Financial assets				
Loans and receivables				
Due from financial institutions	₩	96,234	₩	96,234
Loans		25,000		25,000
Other financial assets		20,226		20,226
	₩	141,460	₩	141,460
Financial liabilities				
Financial liabilities at amortized cost				
Other financial liabilities	₩	1,160	₩	1,160
	₩	1,160	₩	1,160

(in millions of Korean won)

	2011	
	Carrying amount	Fair value
Financial assets		
Loans and receivables		
Due from financial institutions	₩ 32,031	₩ 32,031
Loans	60,000	60,000
Other financial assets	28,304	28,304
	₩ 120,335	₩ 120,335
Financial liabilities		
Financial liabilities at amortized cost		
Debts	₩ 130,000	₩ 130,000
Debentures	49,988	42,654
Other financial liabilities	1,970	1,970
	₩ 181,958	₩ 174,624

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Company discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods of determining fair value of financial instruments are as follows:

Loans	Discounted Cash Flow Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flow, which are contractual cash flows adjusted by prepayment rate, at appropriate discount rate. For those loans with residual maturities of less than three months as of the reporting date and the ones with interest rate reset period of less than three months, carrying amount is regarded as fair value.
Debts	Fair value is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate. However, for those debts with residual maturities of less than three months as of the reporting date and ones with interest rate reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.

6. Due from Financial Institution

The details of due from financial institution as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		Financial Institutions	Interest rate (%) (Dec. 31, 2012)		2012		2011
Due from financial institution in Korean won	Due from banking institution	Kookmin Bank	0.00 ~ 2.85	₩	96,234	₩	32,031

The maturities of due from financial institution, excluding restricted due from financial institution, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	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	Over 3 years	Total
Due from financial institution in Korean won	₩ 96,231	₩ -	₩ -	₩ -	₩ -	₩ 96,231

(in millions of Korean won)

	2011					
	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	Over 3 years	Total
Due from financial institution in Korean won	₩ 20,028	₩ -	₩ -	₩ -	₩ -	₩ 20,028

Restricted due from financial institution as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		Financial Institutions	2012	2011	Reason for restriction
Due from financial institution in Korean won	Kookmin Bank	₩ -	₩ 12,000		Share capital payment of KB Savings Bank Co., Ltd.
			3	3	Pledged as collateral for the overdraft facility
		₩ 3	₩ 12,003		

7. Loans

Loans as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Loans	₩	25,000	₩	60,000
Less: Allowances for loan losses		-		-
Carrying amount	₩	25,000	₩	60,000

8. Subsidiaries

The details of subsidiaries as of December 31, 2012, are as follows:

Name of subsidiary	Number of Issued Shares	Location	Industry
Kookmin Bank	404,379,116	Korea	Banking and domestic, foreign exchange transaction
KB Kookmin Card Co., Ltd	92,000,000	Korea	Credit card
KB Investment & Securities Co., Ltd.	31,588,314	Korea	Financial investment
KB Life Insurance Co., Ltd.	28,152,000	Korea	Life insurance
KB Asset Management Co., Ltd.	7,667,550	Korea	Investment advisory and collective investment
KB Real Estate Trust Co., Ltd.	16,000,000	Korea	Real estate trust management
KB Investment Co., Ltd.	8,951,797	Korea	Investment in small company
KB Credit Information Co., Ltd.	1,252,400	Korea	Collection of receivables and credit investigation
KB Data System Co., Ltd.	800,000	Korea	Software advisory, development and supply
KB Savings Bank Co., Ltd.	6,800,000	Korea	Savings Banking

Investments in subsidiaries as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Name of subsidiary	Ownership(%) (Dec. 31, 2012)		2012		2011
Kookmin Bank	100.00	₩	14,821,721	₩	14,821,721
KB Kookmin Card Co., Ltd	100.00		1,953,175		1,953,175
KB Investment & Securities Co., Ltd	100.00		507,212		507,212
KB Life Insurance Co., Ltd.	51.00		138,484		138,484
KB Asset Management Co., Ltd.	100.00		96,312		96,312
KB Real Estate Trust Co., Ltd.	100.00		121,553		121,553
KB Investment Co., Ltd.	100.00		104,910		104,910
KB Credit Information Co., Ltd.	100.00		23,621		23,621
KB Data System Co., Ltd.	100.00		6,334		6,334
KB Savings Bank Co., Ltd. ¹	100.00		171,526		-
		₩	17,944,848	₩	17,773,322

¹ The Company established KB Savings Bank Co., Ltd. with a capital investment of ₩ 171,526 million in January 2012.

9. Property and Equipment

The details of property and equipment as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Leasehold improvements	₩ 346	₩ (278)	₩ -	₩ 68
Equipment and vehicles	4,111	(3,828)	-	283
	₩ 4,457	₩ (4,106)	₩ -	₩ 351

(in millions of Korean won)

	2011			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Leasehold improvements	₩ 319	₩ (199)	₩ -	₩ 120
Equipment and vehicles	4,024	(3,385)	-	639
	₩ 4,343	₩ (3,584)	₩ -	₩ 759

The changes in property and equipment for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012							
	Beginning		Acquisition		Depreciation		Ending	
Leasehold improvements	₩	120	₩	27	₩	(79)	₩	68
Equipment and vehicles		639		87		(443)		283
Total	₩	759	₩	114	₩	(522)	₩	351

(in millions of Korean won)

	2011							
	Beginning		Acquisition		Depreciation		Ending	
Leasehold improvements	₩	120	₩	88	₩	(88)	₩	120
Equipment and vehicles		989		145		(495)		639
Total	₩	1,109	₩	233	₩	(583)	₩	759

Property and equipment insured as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Type of insurance	Asset insured	Insurance Coverage				Insurance company
		2012		2011		
General property insurance	Leasehold improvements	₩	346	₩	319	Samsung Fire & Marine Insurance Co., Ltd.
	Equipment and vehicles		4,111		4,024	
		₩	4,457	₩	4,343	

10. Intangible Assets

The details of intangible assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012							
	Acquisition cost		Accumulated amortization		Accumulated impairment losses		Carrying amount	
Software	₩	1,814	₩	(1,650)	₩	-	₩	164
Membership rights		11,714		-		(3,289)		8,425
Other intangible assets		2,536		(2,003)		-		533
	₩	16,064	₩	(3,653)	₩	(3,289)	₩	9,122

(in millions of Korean won)

	2011			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Software	₩ 1,731	₩ (1,270)	₩ -	₩ 461
Membership rights	11,667	-	(2,532)	9,135
Other intangible assets	2,354	(1,419)	-	935
	₩ 15,752	₩ (2,689)	₩ (2,532)	₩ 10,531

The changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
	Beginning	Acquisition	Amortization	Impairment ¹	Ending
Software	₩ 461	₩ 83	₩ (380)	₩ -	₩ 164
Membership rights	9,135	48	-	(757)	8,426
Other intangible assets	935	182	(585)	-	532
	₩ 10,531	₩ 313	₩ (965)	₩ (757)	₩ 9,122

(in millions of Korean won)

	2011					
	Beginning	Acquisition	Disposal	Amortization	Impairment ¹	Ending
Software	₩ 805	₩ 84	₩ -	₩ (428)	₩ -	₩ 461
Membership rights	8,924	3,589	(846)	-	(2,532)	9,135
Other intangible assets	1,328	177	-	(570)	-	935
	₩ 11,057	₩ 3,850	₩ (846)	₩ (998)	₩ (2,532)	₩ 10,531

¹ Membership rights with indefinite useful lives recognized impairment losses because their recoverable amount is lower than their carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Beginning	Impairment	Reversal	Ending
Accumulated impairment losses on intangible assets	₩ (2,532)	₩ (757)	₩ -	₩ (3,289)

(in millions of Korean won)

	2011			
	Beginning	Impairment	Reversal	Ending
Accumulated impairment losses on intangible assets	₩	-	₩ (2,532)	₩ (2,532)

11. Deferred Income Tax Assets and Liabilities

The details of deferred income tax assets and liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		
	Assets	Liabilities	Net amount
Share-based payments	₩ 2,320	₩ -	₩ 2,320
Membership rights	796	-	796
Defined benefit obligation	1,602	-	1,602
Plan assets	-	(1,267)	(1,267)
Investments in subsidiaries	-	(493)	(493)
Short-term employee benefits	214	-	214
Others	628	-	628
	5,560	(1,760)	3,800
Off-setting of deferred tax assets and liabilities	(1,760)	1,760	-
	₩ 3,800	₩ -	₩ 3,800

(in millions of Korean won)

	2011		
	Assets	Liabilities	Net amount
Share-based payments	₩ 1,507	₩ -	₩ 1,507
Membership rights	613	-	613
Defined benefit obligation	1,283	-	1,283
Plan assets	-	(1,283)	(1,283)
Investments in subsidiaries	-	(493)	(493)
Short-term employee benefits	216	-	216
Others	602	-	602
	4,221	(1,776)	2,445
Off-setting of deferred tax assets and liabilities	(1,776)	1,776	-
	₩ 2,445	₩ -	₩ 2,445

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 2,896,164 million and ₩ 77,275 million, associated with investments in subsidiaries and tax loss carryforwards, respectively, as of December 31, 2012, due to the uncertainty that all these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Share-based payments	₩ 6,228	₩ 283	₩ 3,641	₩ 9,586
Membership rights	2,532	-	757	3,289
Investments in subsidiaries	2,896,164	-	-	2,896,164
Defined benefit obligation	5,301	1,554	2,873	6,620
Short-term employee benefits	890	890	887	887
Tax loss carryforwards	77,275	-	-	77,275
Others	2,489	2,489	2,595	2,595
	2,990,879	5,216	10,753	2,996,416
Unrecognized deferred income tax assets:				
Investments in subsidiaries	2,896,164			2,896,164
Tax loss carryforwards	77,275			77,275
	₩ 17,440			₩ 22,977
Tax rate (%)	24.2			24.2
Deferred income tax assets from deductible temporary differences	₩ 4,221			₩ 5,560
Taxable temporary differences				
Investments in subsidiaries	₩ (2,395,805)	₩ -	₩ -	₩ (2,395,805)
Plan assets	(5,301)	(2,214)	(2,149)	(5,236)
	₩ (2,401,106)	₩ (2,214)	₩ (2,149)	₩ (2,401,041)
Tax rate (%)	24.2			24.2
Deferred income tax liabilities from taxable temporary differences	₩ (1,776)			₩ (1,760)

(in millions of Korean won)

	2011			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Share-based payments	₩ 4,149	₩ 455	₩ 2,534	₩ 6,228
Membership rights	-	-	2,532	2,532
Investments in subsidiaries	2,896,164	-	-	2,896,164
Defined benefit obligation	3,552	1,488	3,237	5,301
Short-term employee benefits	927	927	891	891
Tax loss carryforwards	77,275	-	-	77,275
Others	1,481	1,481	2,488	2,488
	2,983,548	4,351	11,682	2,990,879
Unrecognized deferred income tax assets:				
Investments in subsidiaries	2,896,164			2,896,164
Tax loss carryforwards	77,275			77,275
	₩ 10,109			₩ 17,440
Tax rate (%)	24.2, 22.0			24.2
Deferred income tax assets from deductible temporary differences	₩ 2,277			₩ 4,221
Taxable temporary differences				
Investments in subsidiaries	₩ (2,395,805)	₩ -	₩ -	₩ (2,395,805)
Plan assets	(4,232)	(1,488)	(2,557)	(5,301)
	₩ (2,400,037)	₩ (1,488)	₩ (2,557)	₩ (2,401,106)
Tax rate (%)	24.2, 22.0			24.2
Deferred income tax liabilities from taxable temporary differences	₩ (1,379)			₩ (1,776)

12. Other Assets

The details of other assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Other financial assets		
Other receivables	₩ 8	₩ -
Accrued income	362	132
Guarantee deposits	19,856	28,172
	20,226	28,304
Other assets		
Other receivables	289,656	601,106
Prepaid expenses	788	2,192
Advance payments	3	-
	290,447	603,298
	₩ 310,673	₩ 631,602

13. Debts

The details of debts as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Issued date	Expiration date	Annual interest rates (%) (Dec. 31, 2012)	2012	2011
Commercial paper	2011.12.12	2012.04.02	-	₩ -	₩ 130,000

The maturity of debts as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				Total
	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	
Commercial paper	₩ -	₩ -	₩ -	₩ -	₩ -

(in millions of Korean won)

	2011				Total
	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	
Commercial paper	₩ -	₩ 130,000	₩ -	₩ -	₩ 130,000

14. Debentures

The details of debentures at amortized cost as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Issued date	Expiration date	Annual interest rates(%) (Dec. 31, 2012)	2012	2011
Unguaranteed debentures No. 2-2	2009.03.20	2012.03.20	- ₩	- ₩	50,000
	Bond discounts			- ₩	(12)
				₩	- ₩ 49,988

The maturity of debts as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				Total
	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	
Debentures in Korean won	₩ - ₩	₩ - ₩	₩ - ₩	₩ - ₩	- ₩

(in millions of Korean won)

	2011				Total
	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	
Debentures in Korean won	₩ 50,000 ₩	₩ - ₩	₩ - ₩	₩ - ₩	50,000 ₩

The changes in debentures based on face value for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Beginning	Issue	Repayment	Ending
Debentures in Korean won	₩ 50,000 ₩	₩ - ₩	₩ (50,000) ₩	- ₩

(in millions of Korean won)

	2011			
	Beginning	Issue	Repayment	Ending
Debentures in Korean won	₩ 800,000 ₩	₩ - ₩	₩ (750,000) ₩	₩ 50,000 ₩

15. Defined Benefit Liabilities

Defined benefit plan

The Company operates a defined benefit plan which has the following characteristics:

- The Company has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Company.

The defined benefit obligation recognized in the statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). The data used in the PUC such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual result due to change in the market, economic trend and mortality trend which may impact defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period it occurs through profit or loss.

The changes in the defined benefit obligation for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Present value of defined benefit obligation (beginning)	₩	7,828	₩	5,366
Current service cost		1,469		1,252
Interest cost		337		274
Actuarial gains and losses		1,066		1,711
Benefits paid		(542)		(775)
Present value of defined benefit obligation (ending)	₩	10,158	₩	7,828

The changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Fair value of plan assets (beginning)	₩	6,836	₩	4,232
Expected return on plan assets		285		183
Actuarial gains and losses		(62)		(45)
Contributions		2,342		2,889
Benefits paid		(627)		(423)
Fair value of plan assets (ending)	₩	8,774	₩	6,836

The details of the defined benefit obligation as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Present value of defined benefit obligation	₩	10,158	₩	7,828
Fair value of plan assets		(8,774)		(6,836)
Defined benefit liabilities		1,384		992

The details of post-employment benefits recognized in profit and loss as employee compensation and benefits for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Current service cost	₩	1,469	₩	1,252
Interest cost		337		274
Expected return on plan assets		(285)		(183)
Actuarial gains and losses		1,128		1,756
Post-employment benefits	₩	2,649	₩	3,099

The actual return on plan assets was ₩ 223 million and ₩ 138 million for the years ended December 31, 2012 and 2011, respectively.

The details of plan assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Time deposits	₩	8,774	₩	6,836

Key actuarial assumptions used as of December 31, 2012 and 2011, are as follows:

	2012	2011
Discount rate (%)	3.55	4.32
Expected return on plan assets (%)	4.19	3.91
Future salary increase rate (%)	2.50(2013), 4.55(2014~)	4.55

Mortality assumptions are based on the 2012 Korea standard mortality rates table.

The present value of defined benefits obligation, fair value of plan assets and actuarial adjustments to each items as of December 31, 2012, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

	Dec. 31, 2012		Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
Present value of defined benefits obligation	₩	10,158	₩	7,828	₩	5,366	₩	4,345
Fair value of plan assets		(8,774)		(6,836)		(4,232)		(3,296)
	₩	1,384	₩	992	₩	1,134	₩	1,049
Experience adjustments on defined benefits obligation	₩	264	₩	389	₩	73		-
Changes in assumptions to defined benefits obligation		802		1,322		569		-
Adjustments to plan assets		62		45		57		-

The Company's best estimate of contributions expected to be paid to plan during the annual period beginning after the reporting period amounts to ₩ 1,283 million.

16. Other Liabilities

The details of other liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Other financial liabilities				
Other payables	₩	445	₩	341
Accrued expenses		715		1,629
		1,160		1,970
Other non-financial liabilities				
Other payables		3,957		4,252
Accrued expenses		41,328		27,833
Withholding taxes		322		646
		45,607		32,731
	₩	46,767	₩	34,701

17. Equity

17.1 Share capital

The details of share capital as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won, except per share amounts)

	2012		2011	
Type	Ordinary share		Ordinary share	
Number of authorized shares	1,000,000,000		1,000,000,000	
Par value per share	₩	5,000	₩	5,000
Number of issued shares	386,351,693		386,351,693	
Share capital	₩	1,931,758	₩	1,931,758

The changes in shares outstanding for the years ended December 31, 2012 and 2011, are as follows:

	2012			
	Beginning	Increase	Decrease	Ending
Number of issued shares	386,351,693	-	-	386,351,693

	2012			
	Beginning ¹	Increase	Decrease	Ending
Number of issued shares	343,028,989	43,322,704	-	386,351,693

¹ Excluding 43,322,704 shares owned by Kookmin Bank.

17.2 Capital Surplus

The details of capital surplus as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Share premium	₩	12,226,597	₩	12,226,597
Other capital surplus	1,287,212		1,287,212	
	₩	13,513,809	₩	13,513,809

17.3 Retained Earnings

The details of retained earnings as of December 31, 2012 and 2011, consist of:

(In millions of Korean won)

	2012		2011	
Legal reserves	₩	124,014	₩	124,014
Voluntary reserves		982,000		982,000
Regulatory reserve for credit losses		3,306		-
Unappropriated retained earnings		1,529,455		1,164,699
	₩	2,638,775	₩	2,270,713

With respect to the allocation of net profit earned in a fiscal term, the Company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to share capital, or used to reduce accumulated deficit.

Statements of Appropriation of Retained Earnings

(Date of appropriation for 2012: March 22, 2013)

(Date of appropriation for 2011: March 23, 2012)

(in millions of Korean won)

	2012		2011	
Unappropriated retained earnings				
Balance at the beginning of year	₩	883,220	₩	1,228,377
Profit(loss) for the year		646,235		(63,678)
		1,529,455		1,164,699
Transfers such as discretionary reserves				
Regulatory reserve for credit losses		1,731		-
		1,731		-
Appropriation of retained earnings				
Legal reserve		64,624		-
Regulatory reserve for credit losses		-		3,306
Cash dividends				
(Dividends per common share: ₩ 600 (12.0%) in 2012)				
(Dividends per common share: ₩ 720 (14.4%) in 2011)		231,811		278,173
		296,435		281,479
Unappropriated retained earnings to be carried over to subsequent year	₩	1,234,751	₩	883,220

Regulatory Reserve for Credit Losses

Measurement and disclosure of regulatory reserve for credit losses are required in accordance with Articles 26 through 28 of Supervisory Regulations on Financial Holding Companies.

The details of the regulatory reserve for credit losses as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Beginning	₩	3,306	₩	-
Amounts estimated to be appropriated		(1,731)		3,306
Ending	₩	1,575	₩	3,306

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won, except per share amounts)

	2012	
Reversal of regulatory reserve for credit losses	₩	(1,731)
Adjusted profit(loss) after provision of regulatory reserve for credit losses ¹		647,966
Adjusted basic earnings(losses) per share after provision of regulatory reserve for credit losses ¹		1,677
Adjusted diluted earnings(losses) per share after provision of regulatory reserve for credit losses ¹	₩	1,672

(In millions of Korean won, except per share amounts)

	2011	
Provision of regulatory reserve for credit losses	₩	2,373
Adjusted profit(loss) after provision of regulatory reserve for credit losses ¹		(66,051)
Adjusted basic earnings(losses) per share after provision of regulatory reserve for credit losses ¹		(180)
Adjusted diluted earnings(losses) per share after provision of regulatory reserve for credit losses ¹	₩	(180)

¹ Adjusted profit (loss) after provision (reversal) of regulatory reserve for credit losses is not accordance with K-IFRS and calculated on the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit (loss) for the year.

18. Dividends

The dividends paid to the shareholders of the Company in 2012 and 2011 were ₩ 278,173 million (₩ 720 per share) and ₩ 41,163 million (₩120 per share), respectively. The dividend to the shareholders in respect of the year ended December 31, 2012, of ₩ 600 per share, amounting to total dividends of ₩ 231,811 million, is to be proposed at the annual general meeting on March 22, 2013. The Company's separate financial statements as of December 31, 2012, do not reflect this dividend payable.

19. Net Interest Income

Interest income and interest expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Interest income				
Due from financial institutions	₩	2,256	₩	16,075
Loans		2,978		9,916
Other		784		1,008
		6,018		26,999
Interest expense				
Debts		2,447		275
Debentures		578		41,296
		3,025		41,571
Net interest income(expense)	₩	2,993	₩	(14,572)

20. Net Fee and Commission Income

Fee and commission income and fee and commission expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Fee and commission income				
Fees in Korean won	₩	-	₩	-
Fee and commission expense				
Fees paid in Korean won		3,993		5,987
Fees paid in foreign currency		137		92
		4,130		6,079
Net fee and commission expense	₩	(4,130)	₩	(6,079)

21. Net Other Operating Income

Other operating income and other operating expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Other operating income				
Dividend income in subsidiaries	₩	687,925	₩	-
Other operating expense		-		-
Net other operating income	₩	687,925	₩	-

22. General and Administrative Expenses

The details of general and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011 ¹	
Employee Benefits				
Salaries and other short-term employee benefits - Salaries	₩	19,875	₩	20,564
Salaries and other short-term employee benefits - Others		2,673		2,245
Termination benefits		-		135
Post employment benefits - defined benefit plans		2,649		3,099
Share-based payments		3,641		2,534
		28,838		28,577
Depreciation and amortization		1,487		1,581
Other general and administrative expenses				
Travel		354		364
Communications		265		254
Tax and dues		268		329
Publication		217		254
Rental expense		2,048		2,173
Vehicle		189		175
Service fees		2,134		1,817
Advertising		673		614
Training		458		521
Others		4,666		5,052
		11,272		11,553
	₩	41,597	₩	41,711

¹ Other general and administrative expenses for the year ended December 31, 2011, reclassified as employee benefits, amount to ₩ 2,245 million.

Share-Based Payments

Share-based payment plan, where the number of granted shares is determined by the longterm achievement, for executives and employees of the Company and its subsidiaries as of December 31, 2012, is as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
(KB Financial Group Inc.)			
Series 1	2008.09.29	2,543	Services fulfillment, Achievement of targets on the basis of market and non-market performance ²
Series 2	2009.03.27	3,090	Service fulfillment ³
Series 3	2010.01.01	32,256	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{4,10}
Series 4	2010.07.13	218,944	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{5,10}
Series 5	2010.12.23	13,260	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{6,10}
Series 6	2011.08.10	8,183	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{6,10}
Series 7	2012.01.01	42,568	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{4,10}
		320,844	
(Kookmin Bank)			
Series 23	2010.07.29	73,650	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{7,10}
Series 24	2010.08.03	25,707	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10,11}
Series 25	2010.08.12	18,472	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{7,10}
Series 27	2010.09.20	6,222	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 28	2010.12.21	50,310	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 29	2010.12.23	5,559	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 31	2011.01.03	16,479	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 32	2011.03.24	7,986	Services fulfillment, Non-market performance ^{9,10}
Series 33	2011.07.07	6,025	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 34	2011.08.10	10,242	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 35	2011.10.12	8,846	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
Series 36	2011.10.18	8,596	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{10, 12}
Series 37	2011.12.23	68,310	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 38	2012.01.01	171,100	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 39	2012.01.08	120,176	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 40	2012.08.01	8,978	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 41	2012.08.02	36,938	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 42	2012.09.20	8,244	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Series 43	2012.11.26	13,918	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8, 10}
Deferred grant in 2010	-	9,578	Satisfied
Deferred grant in 2011	-	26,884	Satisfied
Deferred grant in 2012	-	13,547	Satisfied
		715,767	
(Other subsidiaries)			
Year 2010		33,822	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
Year 2011		38,931	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
Year 2012		63,976	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
		136,729	
		1,173,340	

¹ Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

² The vesting condition is fulfill the remaining contracted service period. The number of certain granted shares to be compensated is determined based on the fulfillment of service requirement. The 30%, 30% and 40% of the number of certain granted shares to be compensated are determined upon the accomplishment of the targeted KPI, the targeted financial results of the Group and the targeted relative TSR, respectively.

³ The number of granted shares to be compensated is determined based on fulfillment of service requirement.

⁴ The 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of targeted KPI, targeted financial results of the Group and targeted relative TSR, respectively. However, 50% and 50% of certain granted shares will be compensated based on the accomplishment of targeted KPI and the accomplishment of targeted relative TSR.

⁵ The 37.5%, 37.5% and 25% of the number of certain granted shares to be compensated are determined based on the accomplishment of targeted relative TSR, targeted relative EPS and qualitative indicators, respectively. The 30%, 30% and 40% of the number of other granted shares to be compensated are determined based on the accomplishment of targeted KPI, targeted financial results of the Group and targeted relative TSR, respectively. The 40%, 40% and 20% of the number of the remaining granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted EPS and qualitative indicators, respectively.

⁶ The 40%, 30% and 30% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted KPI and the targeted financial results of the Group, respectively.

⁷ The 40%, 40% and 20% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted relative EPS and qualitative indicators, such as a trend of ROA of the last two years, respectively.

⁸ The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPI, the targeted financial results of Kookmin Bank and the targeted relative TSR, respectively.

⁹ The number of granted shares to be compensated is not linked to performance, but fixed.

¹⁰ Certain portion of the granted shares is compensated over a maximum period of three years.

¹¹ Fair value of compensation per granted share for certain shares is confirmed.

¹² Half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted KPI.

¹³ The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPI, subsidiary's MOU with the Group and the targeted relative TSR, respectively. The 60% and 40% of the number of certain granted shares to be compensated is determined based on subsidiary's MOU with the Group and the targeted relative TSR, respectively.

The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of share grants linked to short-term performance as of December 31, 2012, are as follows:

		Grant date	Number of vested shares ¹	Vesting conditions
KB Financial Group Inc.	Share granted in 2010	2010.01.01	6,149	Satisfied
	Share granted in 2011	2011.01.01	19,279	Satisfied
	Share granted in 2012	2012.01.01	24,257	Proportion to service period
Kookmin Bank	Share granted in 2010	2010.01.01	50,155	Satisfied
	Share granted in 2011	2011.01.01	142,778	Satisfied
	Share granted in 2012	2012.01.01	179,905	Proportion to service period

¹ The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2012, are as follows:

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
(KB Financial Group Inc.) Long-term achievements				
Series 1-4	0.22	2.78	₩ -	₩ 37,800
Series 2-3	0.22	2.78	-	37,800
Series 3-1	0.25~1.00	2.78	-	37,117~38,564
Series 3-2	0.25~2.00	2.78	-	37,117~39,366
Series 3-3	0.25~1.00	2.78	-	37,117~38,564
Series 4-1	0.53~3.53	2.78	5,401	38,961~40,501
Series 4-2	0.53~3.53	2.78	5,874	38,961~40,501
Series 4-3	0.25~3.00	2.78	37,117	37,117~40,159
Series 4-4	0.25~3.00	2.78	37,117	37,117~40,159
Series 4-5	0.25~3.00	2.78	37,117	37,117~40,159

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Series 5-1	0.25~2.00	2.78	-	37,117~39,366
Series 6-1	1.00~4.00	2.78	8,321	37,616~40,925
Series 7-1	1.00~4.00	2.78	17,835	37,616~40,925
(Kookmin Bank) Long-term achievements				
Series 23	0.53~3.53	2.78	5,713	37,635~40,501
Series 24	0.25~3.00	2.78	-	37,117~40,159
Series 25	0.53~3.53	2.78	5,673	37,635~40,501
Series 27	0.25~3.00	2.78	-	37,117~40,159
Series 28	0.25~3.00	2.78	-	37,117~40,159
Series 29	0.25~3.00	2.78	-	37,117~40,159
Series 31	0.25~3.00	2.78	-	37,117~40,159
Series 32	1.22~4.23	2.78	-	37,451~40,894
Series 33	0.50~4.00	2.78	5,117	37,743~40,925
Series 34	0.61~4.00	2.78	8,454	37,666~40,925
Series 35	1.00~4.00	2.78	10,764	37,616~40,925
Series 36	1.00~4.00	2.78	11,559	37,616~40,925
Series 37	1.00~4.00	2.78	17,351	37,616~40,925
Series 38	1.00~4.00	2.78	17,835	37,616~40,925
Series 39	1.00~4.00	2.78	17,591	37,616~40,925
Series 40	1.58~5.00	2.79	23,052	37,283~41,706
Series 41	1.58~5.00	2.79	23,100	37,396~41,706
Series 42	1.72~5.00	2.79	17,946	37,471~41,706
Series 43	1.90~5.00	2.80	17,739	37,363~41,706
Deferred grant in 2010	0.25~1.00	2.78	-	38,529~39,366
Deferred grant in 2011	0.25~2.00	2.78	-	38,056~39,366
Deferred grant in 2012	0.25~2.00	2.78	-	38,564~39,366
(Other Subsidiaries) Long-term achievements				
Year 2010	0.25~0.65	2.78	₩ 0~37,117	₩ 37,117~37,801
Year 2011	1.00~1.35	2.78~2.79	4,482~11,720	37,450~37,616
Year 2012	2.00~2.54	2.80~2.82	19,787~25,616	36,989~37,291

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
(KB Financial Group Inc.) Short-term achievements				
Year 2010	0.25~1.00	2.78	₩ -	₩ 37,117~38,564
Year 2011	0.25~2.00	2.78	-	37,117~39,366
Year 2012	1.00~3.00	2.78	-	38,564~40,159
(Kookmin Bank) Short-term achievements				
Year 2010	0.25~1.00	2.78	₩ -	₩ 37,117~38,564
Year 2011	0.25~2.00	2.78	-	37,117~39,366
Year 2012	1.00~3.00	2.78	-	38,564~40,159

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price of December 31, 2012, for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate. The Company used the historical data of Kookmin Bank for the period before the Company was incorporated.

Share-based payment arrangement for the employees of subsidiaries was transferred to the Company from the subsidiaries in 2010 and the related compensation cost paid to the employees of subsidiaries is reimbursed from the subsidiaries. The accrued expenses representing share-based payments as of December 31, 2012 and 2011, are ₩ 37,846 million and ₩ 24,454 million, respectively, and the receivables to be reimbursed from the subsidiaries for the compensation costs are ₩ 28,260 million and ₩ 18,226 million, respectively. The compensation costs amounting to ₩ 3,641 million and ₩ 2,534 million were recognized as an expense for the years ended December 31, 2012 and 2011, respectively.

23. Non-operating Income and Expenses

The details of non-operating income and expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Non-operating income		
Others	₩ 1,580	₩ 884
	1,580	884
Non-operating expenses		
Impairment losses	757	2,532
Donation	1,107	1,215
Others	28	-
	1,892	3,747
Net non-operating expense	₩ (312)	₩ (2,863)

24. Income Tax

The details of income tax benefit for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Tax payable				
Current tax expense	₩	-	₩	-
Change in deferred tax assets(liabilities)				
Origination and reversal of temporary differences		1,356		1,547
Tax benefit	₩	1,356	₩	1,547

The analysis of profit (loss) before tax and income tax benefit for the years ended December 31, 2012 and 2011, follows:

(in millions of Korean won)

	2012		2011	
	Ratio (%)	Amounts	Ratio (%)	Amounts
Profit (loss) before tax		₩ 644,879		₩ (65,225)
Tax expense at the applicable tax rate ¹	24.13	₩ 155,599	24.16	₩ (15,758)
Non-taxable income	(25.63)	(165,287)	-	-
Non-deductible expense	0.09	584	(0.93)	607
Consolidated tax effect	1.20	7,748	(20.91)	13,636
Others	-	-	0.05	(32)
Tax benefit	0.22	₩ 1,356	(2.37)	₩ 1,547

¹ Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2% as of December 31, 2012. In addition, for ₩ 200 million and below is 11%, and for over ₩ 200 million is 24.2% as of December 31, 2011.

The details of current tax assets (income tax refund receivable) and current tax liabilities (income tax payable), as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Income tax refund receivable prior to off-set	₩	-	₩	-
Tax payable prior to off-set		-		-
Adjustment on consolidated tax payable		257,535		578,729
Current tax payable	₩	257,535	₩	578,729

25. Earnings(Losses) per Share

Calculations of basic earnings(losses) per share on the profit(loss) attributable to ordinary shares are as follows:

Weighted average number of ordinary shares outstanding :

(In number of shares)

	2012		
	Number of shares (a)	Days outstanding (b)	Total outstanding shares (a) x (b)
Beginning (A)	386,351,693	366	141,404,719,638
Weighted average number of ordinary shares outstanding (B = A / 366)			386,351,693

(In number of shares)

	2011		
	Number of shares (a)	Days outstanding (b)	Total outstanding shares (a) x (b)
Beginning (A)	386,351,693	365	141,018,367,945
Treasury shares (B)	43,322,704	13	563,195,152
	40,984,474	28	1,147,565,272
	37,463,510	42	1,573,467,420
	34,966,962	105	3,671,531,010
			6,955,758,854
Total outstanding shares (C = A - B)			134,062,609,091
Weighted average number of ordinary shares outstanding (D = C / 365)			367,294,819

Basic earnings(losses) per share

(in Korean won and in number of shares)

2012		
Profit(loss) attributable to ordinary shares ¹ (E)	₩	646,235,488,149
Weighted average number of ordinary shares outstanding (F)		386,351,693
Basic earnings(losses) per share (G = E / F)	₩	1,673

(in Korean won and in number of shares)

2011		
Profit(loss) attributable to ordinary shares ¹ (E)	₩	(63,678,372,821)
Weighted average number of ordinary shares outstanding (F)		367,294,819
Basic earnings(losses) per share (G = E / F)	₩	(173)

¹ Profit(loss) attributable to ordinary shares is the same as profit(loss) for the year in statements of comprehensive income.

Diluted earnings(losses) per share

Diluted earnings(losses) per share is calculated using the weighted average number of ordinary shares outstanding which is adjusted by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares include share grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of share grants.

Adjusted profit for diluted earnings(losses) per share:

		(in Korean won and in number of shares)	
		2012	
Profit(loss) attributable to ordinary shares	₩	646,235,488,149	
Adjustment		-	
Adjusted profit(loss) for diluted earnings(losses) per share	₩	646,235,488,149	
		(in Korean won and in number of shares)	
		2011	
Profit(loss) attributable to ordinary shares	₩	(63,678,372,821)	
Adjustment		-	
Adjusted profit(loss) for diluted earnings(losses) per share	₩	(63,678,372,821)	

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings(losses) per share:

		(in number of shares)	
		2012	
Weighted average number of ordinary shares outstanding		386,351,693	
Adjustment			
Share grants		1,193,606	
Adjusted weighted average number of ordinary shares outstanding for diluted earnings(losses) per share		387,545,299	
		(in number of shares)	
		2011	
Weighted average number of ordinary shares outstanding		367,294,819	
Adjustment			
Share grants		1,173,480	
Adjusted weighted average number of ordinary shares outstanding for diluted earnings(losses) per share		368,468,299	

Diluted earnings(losses) per share:

(In Korean won)

	2012	
Adjusted profit(loss) for diluted earnings(losses) per share	₩	646,235,488,149
Adjusted weighted average number of ordinary shares outstanding for diluted earnings(losses) per share		387,545,299
Diluted earnings(losses) per share		1,668

(In Korean won)

	2011	
Adjusted profit(loss) for diluted earnings(losses) per share	₩	(63,678,372,821)
Adjusted weighted average number of ordinary shares outstanding for diluted earnings(losses) per share		368,468,299
Diluted earnings(losses) per share		(173)

26. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Due from financial institutions	₩	96,234	₩	32,031
Restricted due from financial institutions		(3)		(12,003)
	₩	96,231	₩	20,028

Significant non-cash transactions for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Changes in receivables and payables from consolidated tax	₩	(321,484)	₩	582,880
Changes in other receivables and other payables		10,034		2,598

Cash inflow and outflow due to interest and dividends for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Activity	2012		2011	
Interest received	Operating	₩	5,012	₩	29,846
Interest paid	Operating		3,121		45,143
Dividends received	Operating		687,925		-
Dividends paid	Financing		278,173		41,163

27. Commitments

The commitments made with financial institutions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		2011			2012		
		Amount of commitment	Amounts borrowed	Amount of commitment	Amounts borrowed		
General loans	Hana Bank	₩ 50,000	₩ -	₩ 50,000	₩ -		
	Woori Bank	130,000	-	130,000	-		
Discounting of bills	Korea Exchange Bank	100,000	-	100,000	-		
		₩ 280,000	₩ -	₩ 280,000	₩ -		

28. Related Party Transactions

Significant related party transactions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		2012				
		Interest Income and others	Provision (reversal)	Rental expense and others		
Subsidiaries	Kookmin Bank	₩ 660,953	₩ -	₩ 2,703		
	KB Kookmin Card Co., Ltd	6	-	-		
	KB Investment & Securities Co., Ltd.	-	-	160		
	KB Asset Management Co., Ltd	30,000	-	-		
	KB Life Insurance Co., Ltd.	-	-	167		
	KB Real Estate Trust Co., Ltd	2,455	-	-		
	KB Investment Co., Ltd.	523	-	-		
	KB Data Systems Co., Ltd.	-	-	652		
Key management		-	-	-		
		₩ 693,937	₩ -	₩ 3,682		

(in millions of Korean won)

		2011					
		Interest Income and others		Provision (reversal)		Rental expense and others	
Subsidiaries	Kookmin Bank	₩	17,037	₩	-	₩	2,731
	KB Kookmin Card Co., Ltd		-		-		1
	KB Investment & Securities Co., Ltd.		6,559		-		312
	KB Asset Management Co., Ltd		-		-		3
	KB Real Estate Trust Co., Ltd.		2,802		-		-
	KB Investment Co., Ltd.		555		-		-
	KB Data Systems Co., Ltd.		-		-		670
Key management			-		-		-
		₩	26,953	₩	-	₩	3,717

The details of receivables and payables, and related allowance for loans losses arising from the related party transactions as of December 31, 2012, are as follows:

(In millions of Korean won)

		2012					
		Receivables		Allowances for loan losses		Payables	
Subsidiaries	Kookmin Bank	₩	335,710	₩	-	₩	-
	KB Kookmin Card Co., Ltd		55,435		-		251
	KB Investment & Securities Co., Ltd.		1,141		-		3,301
	KB Life Insurance Co., Ltd.		363		-		167
	KB Asset Management Co., Ltd.		8,130		-		-
	KB Real Estate Trust Co., Ltd.		19,882		-		-
	KB Investment Co., Ltd.		10,284		-		-
	KB Credit Information Co., Ltd.		216		-		155
	KB Data Systems Co., Ltd.		196		-		63
	KB Savings Bank Co., Ltd		-		-		406
Key management			-		-		-
		₩	431,357	₩	-	₩	4,343

The details of receivables and payables, and related allowance for loans losses arising from the related party transactions as of December 31, 2011, are as follows:

(In millions of Korean won)

		2011					
		Receivables		Allowances for loan losses		Payables	
Subsidiaries	Kookmin Bank	₩	548,861	₩	-	₩	-
	KB Kookmin Card Co., Ltd		92,867		-		323
	KB Investment & Securities Co., Ltd.		1,182		-		4,365
	KB Life Insurance Co., Ltd.		190		-		-
	KB Asset Management Co., Ltd.		7,695		-		-
	KB Real Estate Trust Co., Ltd.		51,431		-		-
	KB Investment Co., Ltd.		10,092		-		50
	KB Credit Information Co., Ltd.		116		-		36
	KB Data Systems Co., Ltd.		908		-		52
Key management		-		-		-	
		₩	713,342	₩	-	₩	4,826

According to K-IFRS 1024, the Company includes subsidiaries and key management (including family members) in the scope of related parties. Additionally, the Company discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the separate financial statements. Refer to Note 8 for details on subsidiaries.

Key management includes the directors of the Company, their close family members, and the companies where the directors and their close family members have the power to influence the decision-making process.

Compensation to key management for the year ended December 31, 2012, consists of:

(in millions of Korean won)

	Short-term employee benefits	Post-employment benefits	Termination Benefits	Share-based payments	Total
Registered director (executive)	₩ 2,439	₩ 139	₩ -	₩ 1,856	₩ 4,434
Registered director (non-executive)	774	-	-	18	792
Non-registered director	2,945	190	-	1,767	4,902
	₩ 6,158	₩ 329	₩ -	₩ 3,641	₩ 10,128

Compensation to key management for the year ended December 31, 2011, consists of:

(in millions of Korean won)

	Short-term employee benefits		Post-employment benefits		Termination Benefits		Share-based payments		Total	
Registered director (executive)	₩	2,775	₩	186	₩	-	₩	1,936	₩	4,897
Registered director (non-executive)		659		-		-		(48)		611
Non-registered director		2,238		307		135		646		3,326
	₩	5,672	₩	493	₩	135	₩	2,534	₩	8,834

29. Approval of Financial Statements

The separate financial statements as of and for the year ended December 31, 2012, were approved on February 28, 2013, by the Board of Directors.

Report of Independent Accountants' Review of Internal Accounting Control System

To the President of KB Financial Group Inc.

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, 2012. 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, 2012, the Company's IACS has been designed and is operating effectively as of December 31, 2012, 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 International Financial Reporting Standards as adopted by the Republic of Korea ("K-IFRS"). 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, 2012, and we did not review management's assessment of its IACS subsequent to December 31, 2012. 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 Pricewaterhouse Coopers
March 12, 2013

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, 2012.

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, 2012, in all material respects, in accordance with the IACS standards.

March 5, 2013

Jong-Kyoo Yoon,
Internal Accounting Control Officer

Yoon-Dae Euh,
Chief Executive Officer

Report of Independent Auditors



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

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

We have audited the accompanying consolidated statements of financial position of KB Financial Group Inc. and its subsidiaries (collectively the "Group") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("K-IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 12, 2013

This report is effective as of March 12, 2013, 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 Statements of Financial Position

December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(in millions of Korean won)

	Notes	2012	2011
Assets			
Cash and due from financial institutions	4,6,7,8,39	₩ 10,568,350	₩ 9,178,125
Financial assets at fair value through profit or loss	4,6,8,12	6,299,194	6,326,104
Derivative financial assets	4,6,9	2,024,784	2,448,455
Loans	4,6,8,10,11,41	212,716,251	212,107,027
Financial investments	4,6,8,12	36,897,139	35,432,182
Investments in associates	13	1,035,205	892,132
Property and equipment	14	3,103,597	3,186,020
Investment property	14	52,974	51,552
Intangible assets	15	500,023	468,441
Deferred income tax assets	16,33	18,432	22,329
Assets held for sale	17	35,412	9,931
Other assets	4,6,18	8,755,217	7,478,519
Total assets		282,006,578	277,600,817
Liabilities			
Financial liabilities at fair value through profit or loss	4,6,19	₩ 1,851,135	₩ 1,388,079
Derivative financial liabilities	4,6,9	2,068,813	2,059,573
Deposits	4,6,20	194,403,279	190,337,590
Debts	4,6,21	15,969,522	16,823,838
Debentures	4,6,22,41	24,131,770	27,069,879
Provisions	23	669,729	797,739
Defined benefit liabilities	24	75,157	128,488
Current income tax liabilities	33	264,666	588,825
Deferred income tax liabilities	16,33	129,969	220,842
Other liabilities	4,6,25	17,738,498	15,086,169
Total liabilities		257,302,538	254,501,022
Equity			
Share capital		1,931,758	1,931,758
Capital surplus		15,840,300	15,841,824
Accumulated other comprehensive income	35	359,969	191,642
Retained earnings		6,377,491	4,952,751
Equity attributable to shareholders of the parent company	26	24,509,518	22,917,975
Non-controlling interests		194,522	181,820
Total equity		24,704,040	23,099,795
Total liabilities and equity		₩ 282,006,578	₩ 277,600,817

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

Consolidated Statements of Comprehensive Income

Years ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(In millions of Korean won, except per share amounts)

	Notes	2012	2011
Interest income		₩ 14,155,825	₩ 13,956,257
Interest expense		(7,039,912)	(6,851,745)
Net interest income	5,27	7,115,913	7,104,512
Fee and commission income		2,778,668	2,829,754
Fee and commission expense		(1,186,027)	(1,035,004)
Net fee and commission income	5,28	1,592,641	1,794,750
Net gains(losses) on financial assets/liabilities at fair value through profit or loss	5,29	651,203	1,035,867
Net other operating income(loss)	5,30	(1,455,270)	(1,092,009)
General and administrative expenses	5,14,15,24,31	(3,885,285)	(3,931,808)
Operating profit before provision for credit losses	5	4,019,202	4,911,312
Provision for credit losses	5,11,18,23	(1,607,804)	(1,512,978)
Net operating profit	5	2,411,398	3,398,334
Share of profit of associates	5,13	(13,536)	4,963
Net other non-operating income(expense)	5,32,43	(136,534)	(142,491)
Net non-operating profit (loss)		(150,070)	(137,528)
Profit before income tax	5	2,261,328	3,260,806
Income tax expense	5,33	(549,340)	(832,234)
Profit for the year	5	1,711,988	2,428,572
Exchange differences on translating foreign operations		(25,690)	5,602
Change in value of financial investments		249,647	(239,596)
Shares of other comprehensive income of associates		(44,177)	(433)
Cash flow hedges		(813)	(1,321)
Other comprehensive income(loss) for the year, net of tax		178,967	(235,748)
Total comprehensive income for the year		₩ 1,890,955	₩ 2,192,824
Profit attributable to:			
Shareholders of the parent company	5	₩ 1,702,913	₩ 2,373,026
Non-controlling interests	5	9,075	55,546
	5	₩ 1,711,988	₩ 2,428,572
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		₩ 1,871,240	₩ 2,134,096
Non-controlling interests		19,715	58,728
		₩ 1,890,955	₩ 2,192,824
Earnings per share	36		
Basic earnings per share		₩ 4,408	₩ 6,461
Diluted earnings per share		4,394	6,445

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

Consolidated Statements of Changes in Equity

Years ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(in millions of Korean won)

Equity attributable to shareholders of the parent company							
	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Share	Non-controlling Interests	Total Equity
Balance at January 1, 2011	₩ 1,931,758	₩ 15,990,278	₩ 430,572	₩ 2,620,888	₩ (2,476,809)	₩ 1,169,243	₩ 19,665,930
Comprehensive income							
Profit for the year	-	-	-	2,373,026	-	55,546	2,428,572
Exchange differences on translating foreign operations	-	-	5,492	-	-	110	5,602
Change in value of financial investments	-	-	(242,668)	-	-	3,072	(239,596)
Shares of other comprehensive income of associates	-	-	(433)	-	-	-	(433)
Cash flow hedges	-	-	(1,321)	-	-	-	(1,321)
Total comprehensive income(loss)	-	-	(238,930)	2,373,026	-	58,728	2,192,824
Transactions with shareholders							
Dividends paid to shareholders of the parent company	-	-	-	(41,163)	-	-	(41,163)
Dividends paid to holders of hybrid capital instruments	-	-	-	-	-	(46,151)	(46,151)
Redemption of hybrid capital instruments	-	-	-	-	-	(1,000,000)	(1,000,000)
Disposal of treasury shares	-	(148,060)	-	-	2,476,809	-	2,328,749
Others	-	(394)	-	-	-	-	(394)
Total transactions with shareholders	-	(148,454)	-	(41,163)	2,476,809	(1,046,151)	1,241,041
Balance at December 31, 2011	₩ 1,931,758	₩ 15,841,824	₩ 191,642	₩ 4,952,751	₩ -	₩ 181,820	₩ 23,099,795

Consolidated Statements of Changes in Equity

Years ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(in millions of Korean won)

Equity attributable to shareholders of the parent company							
	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Share	Non- controlling Interests	Total Equity
Balance at January 1, 2012	₩ 1,931,758	₩ 15,841,824	₩ 191,642	₩ 4,952,751	₩ -	₩ 181,820	₩ 23,099,795
Comprehensive income							
Profit for the year	-	-	-	1,702,913	-	9,075	1,711,988
Exchange differences on translating foreign operations	-	-	(25,596)	-	-	(94)	(25,690)
Change in value of financial investments	-	-	238,913	-	-	10,734	249,647
Shares of other comprehensive income of associates	-	-	(44,177)	-	-	-	(44,177)
Cash flow hedges	-	-	(813)	-	-	-	(813)
Total comprehensive income	-	-	168,327	1,702,913	-	19,715	1,890,955
Transactions with shareholders							
Dividends paid to shareholders of the parent company	-	-	-	(278,173)	-	-	(278,173)
Others	-	(1,524)	-	-	-	(7,013)	(8,537)
Total transactions with shareholders	-	(1,524)	-	(278,173)	-	(7,013)	(286,710)
Balance at December 31, 2012	₩ 1,931,758	₩ 15,840,300	₩ 359,969	₩ 6,377,491	₩ -	₩ 194,522	₩ 24,704,040

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

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(in millions of Korean won)

	Note	2012	2011
Cash flows from operating activities			
Profit for the year		₩ 1,711,988	₩ 2,428,572
Adjustment for non-cash items			
Net loss(gain) on financial assets/liabilities at fair value through profit or loss		(222,022)	(391,197)
Net loss(gain) on derivative financial instruments for hedging purposes		15,165	(107,371)
Adjustment of fair value of derivative financial instruments		42	207,522
Provision for credit loss		1,607,804	1,512,978
Net loss(gain) on financial investments		148,211	(481,459)
Share of loss(profit) of associates		13,536	(4,963)
Depreciation and amortization expense		328,642	342,656
Other net losses on property and equipment/intangible assets		40,881	18,533
Share-based payments(reversal)		13,871	(7,609)
Policy reserve appropriation		1,305,730	673,259
Post-employment benefits		202,864	204,337
Net interest expense		229,691	84,470
Loss(gains) on foreign currency translation		(148,877)	273,971
Net other expense		2,783	130,206
		3,538,321	2,455,333
Changes in operating assets and liabilities			
Financial asset at fair value through profit or loss		132,205	(2,370,999)
Derivative financial instruments		252,166	481,502
Loans		(2,226,547)	(17,023,252)
Deferred income tax assets		3,211	-
Other assets		2,202,544	(877,081)
Financial liabilities at fair value through profit or loss		357,825	146,638
Deposits		1,552,950	10,716,619
Deferred income tax liabilities		(166,772)	(13,150)
Other liabilities		630,144	48,628
		2,737,726	(8,891,095)
Net cash generated from (used in) operating activities		7,988,035	(4,007,190)

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

(in millions of Korean won)

	Note	2012	2011
Cash flows from investing activities			
Disposal of financial investments		24,848,249	22,875,143
Acquisition of financial investments		(26,141,095)	(21,918,460)
Decrease in investments in associates		11,543	12,120
Acquisition of investments in associates		(212,556)	(176,105)
Disposal of property and equipment		8,740	859
Acquisition of property and equipment		(143,327)	(261,905)
Disposal of intangible assets		3,785	10,353
Acquisition of intangible assets		(82,400)	(105,341)
Business combination, net of cash acquired		40,575	-
Others		(838,816)	251,888
Net cash provided by (used in) investing activities		(2,505,302)	688,552
Cash flows from financing activities			
Net cash flows from derivative financial instruments for hedging purposes		75,761	20,733
Net increase(decrease) in debts		(792,778)	5,453,721
Increase in debentures		10,282,920	9,665,174
Decrease in debentures		(13,084,093)	(11,607,211)
Disposal of treasury shares		-	2,281,524
Redemption of hybrid capital instruments		-	(1,000,000)
Dividends paid to holders of hybrid capital instruments		-	(46,331)
Dividends paid to shareholders of the parent company		(278,173)	(41,163)
Others		150,109	48,434
Net cash provided by (used in) financing activities		(3,646,254)	4,774,881
Effect of exchange rate changes on cash and cash equivalents		(13,560)	32,982
Net increase in cash and cash equivalents		1,822,919	1,489,225
Cash and cash equivalents at the beginning of the year	39	4,740,804	3,251,579
Cash and cash equivalents at the end of the year	39	₩ 6,563,723	₩ 4,740,804

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

KB FINANCIAL GROUP INC. AND SUBSIDIARIES

1. The Parent Company

KB Financial Group Inc. (the "Parent Company") was incorporated on September 29, 2008, under the Financial Holding Companies Act of Korea. KB Financial Group Inc. and its subsidiaries (the "Group") derive substantially all of their revenue and income from providing a broad range of banking and related financial services to consumers and corporations primarily in Korea and in selected international markets. The Parent Company's principal business includes ownership and management of subsidiaries and associated companies that are engaged in financial services or activities. In 2011, Kookmin Bank spun off its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., and KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. The Group established KB Savings Bank Co., Ltd. in January 2012.

The Parent Company's share capital as of December 31, 2012, is ₩1,931,758 million. The Parent Company is authorized to issue up to 1 billion shares. The Parent Company has been listed on the Korea Exchange ("KRX") since October 10, 2008, and listed on the New York Stock Exchange ("NYSE") for its American Depository Shares ("ADS") since September 29, 2008.

2. Basis of Preparation

2.1 Application of K-IFRS

The Group's consolidated financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean-IFRS ("K-IFRS"). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea. The transition date, according to K-IFRS 1101, from the previous accounting principles generally accepted in the Republic of Korea ("Previous K-GAAP") to K-IFRS is January 1, 2010.

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

The Group has prepared the consolidated financial statements in accordance with KIFRS1027, Consolidated and Separate Financial Statements.

New standards, amendments and interpretations issued but not effective for the year beginning January 1, 2012, and not early adopted by the Group are as follows:

Amendments to K-IFRS 1019, *Employee Benefits*

According to the amendments to K-IFRS 1019, the corridor approach for actuarial gains and losses is not allowed anymore, accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. Past service costs incurred under changes of plans are recognized immediately, and the amendment replaces the interest cost on the defined benefit obligation, and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. This amendment is effective for the Group as of January 1, 2013. The Group is assessing the impact of application of the amended K-IFRS 1019 on its consolidated financial statements.

Enactment of K-IFRS 1113, *Fair value measurement*

K-IFRS 1113 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across K-IFRS. K-IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards

within K-IFRS. K-IFRS 1113 is effective for the Group as of January 1, 2013, and the Group expects that the enactment would not have a material impact on the consolidated financial statements of the Group.

Amendments to K-IFRS 1001, *Presentation of Financial Statements*

K-IFRS 1001, *Presentation of Financial Statements*, was amended to require other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

Enactment of K-IFRS 1110, *Consolidated Financial Statements*

K-IFRS 1110, *Consolidated Financial Statements*, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. K-IFRS 1110 will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of the K-IFRS 1110.

Enactment of K-IFRS 1111, *Joint Arrangements*

K-IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. K-IFRS 1111 will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of the K-IFRS 1111.

Enactment of K-IFRS 1112, *Disclosures of Interests in Other Entities*

K-IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. K-IFRS 1112 will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of the K-IFRS 1112.

2.2 Measurement Basis

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

2.3 Functional and Presentation Currency

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

2.4 Significant Estimates

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

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

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

2.4.1 Deferred income taxes

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

2.4.2 Fair value of financial instruments

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

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

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

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

2.4.4 Defined benefit obligation

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

3. Significant Accounting Policies

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

3.1 Consolidation

3.1.1 Subsidiaries

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

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

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

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

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

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

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

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

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

3.1.3 Trusts and funds

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

3.1.4 Intra-group transactions

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

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

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

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

3.2.2 Foreign Operations

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

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

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

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

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

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

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

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

3.3.2 Subsequent measurement

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

Amortized cost

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

Fair value

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

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

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

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

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

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

3.3.3 Derecognition

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

3.3.4 Offsetting

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

3.4 Cash and cash equivalents

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

3.5 Non-derivative financial assets

3.5.1 Financial assets at fair value through profit or loss

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

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

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

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

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by K-IFRS 1039, *Financial Instruments: Recognition and measurement*.

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

3.5.2 Financial Investments

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

3.5.3 Loans and receivables

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

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

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

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

3.6 Impairment of financial assets

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

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

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

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. Accordingly, the Group considers the decline in the fair value of over 30% against the original cost as a "significant decline" and a six-month decline in the fair value below its cost for an equity instrument as a "prolonged decline".

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

3.6.1 Loans and receivables

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

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

Individual assessment of impairment

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

Collective assessment of impairment

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

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

3.6.2 Available-for-sale financial assets

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

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

3.6.3 Held-to-maturity financial assets

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

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

3.7 Derivative Financial Instruments

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

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

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

3.7.1 Derivative financial instruments held for trading

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

3.7.2 Fair value hedges

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

3.7.3 Cash flow hedges

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

3.7.4 Embedded derivatives

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

3.7.5 Day one gain and loss

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

3.8 Property and equipment

3.8.1 Recognition and Measurement

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

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

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

3.8.2 Depreciation

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

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

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

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

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

3.9 Investment properties

3.9.1 Recognition and Measurement

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

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

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

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

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

3.10 Intangible assets

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

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

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

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

3.10.1 Goodwill

Recognition and measurement

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

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

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

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

Additional acquisitions of non-controlling interest

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

Subsequent measurement

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

3.10.2 Subsequent expenditure

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

3.11 Leases (the Group as lessee)

3.11.1 Finance lease

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

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

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

3.11.2 Operating lease

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

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Leases in the financial statements of lessees

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

3.12 Impairment of non-financial assets

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

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

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

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

3.13 Non-current assets held for sale

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

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

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

3.14 Financial liabilities at fair value through profit or loss

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

3.15 Insurance Contracts

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

Insurance contracts are defined as “a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder”. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of K-IFRS 1039, *Financial Instruments: Recognition and measurement* to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to K-IFRS 1104, *Insurance Contracts*. The Group recognizes assets (liabilities) and gains (losses) relating to insurance contracts as other assets (liabilities) in the statements of financial position, and as other operating income (expenses) in the statements of comprehensive income, respectively.

The following table lists numbers of currently available and discontinued insurance products as of December 31, 2012:

Type	Available	Discontinued	Total
Individual annuity	-	9	9
General annuity	7	21	28
Other pure endowment	-	3	3
Pure protection insurance	13	25	38
Other protection insurance	-	28	28
Joint insurance	7	33	40
Group protection insurance	2	5	7
Group savings insurance	-	1	1
	29	125	154

3.15.1 Insurance premiums

The Group recognizes collected premiums as revenue when a due date of collection of premiums from insurance contracts comes and the collected premium which is unmatured at the end of the reporting period is recognized as unearned premium.

3.15.2 Insurance liabilities

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

Premium reserve

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

Reserve for outstanding claims

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

Unearned premium reserve

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

Policyholders' dividends reserve

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

3.15.3 Liability adequacy test

The Group assesses at each reporting date whether its insurance liabilities are adequate, using current estimates of all future contractual cash flows and related cash flow such as claims handling cost, as well as cash flows resulting from embedded options and guarantees under its insurance contracts in accordance with K-IFRS 1104. If the assessment shows that the carrying amount of its insurance liabilities is inadequate in light of the estimated future cash flows, the entire deficiency is recognized in profit or loss and reserved as insurance liabilities. Future cash flows from long-term insurance are discounted at a future rate of return on operating assets, whereas future cash flows from general insurance are not discounted to present value. For liability adequacy tests of premium and unearned premium reserves, the Group considers all cash flow factors such as future insurance premium, deferred acquisition costs, operating expenses and operating premiums. In relation to the reserve for outstanding claims, the Group elects a model that best reflects the trend of paid claims among several statistical methods to perform the adequacy test.

3.15.4 Deferred acquisition costs

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

3.16 Provisions

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

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

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

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

3.17 Financial guarantee contracts

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

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

- The amount determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets and*
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS 1018, *Revenue*

3.18 Equity instruments issued by the Group

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

3.18.1 Ordinary shares

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

3.18.2 Hybrid capital instruments

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

3.18.3 Treasury shares

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

3.19 Revenue recognition

3.19.1 Interest income and expense

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

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

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

3.19.2 Fee and commission income

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

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

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

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

Fees that are earned on the execution of a significant act

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

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

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

3.19.3 Dividend income

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

3.20 Employee compensation and benefits

3.20.1 Post-employment benefits:

Defined benefit plans

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

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

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

Past service cost arises when the Group introduces a defined benefit plan that attributes to past service or changes the benefits payable for past service under an existing defined benefit plan. Such past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, past service cost is recognized immediately.

Defined contribution plans

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

3.20.2 Short-term employee benefits

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

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.20.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments for a share-based payment transaction at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determined that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

3.20.4 Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognizes termination benefits as a liability and an expense when, and only when, the Group is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. The Group is demonstrably committed to a termination when, and only when, the Group has a detailed formal plan for the termination and is without realistic possibility of withdrawal. Where termination benefits fall due more than 12 months after the end of the reporting period, they are discounted using the appropriate discount rate.

3.20.5 Reclassification

As discussed in Note 31, employee benefits for the year ended December 31, 2011, were reclassified to conform with the December 31, 2012 financial statement presentation. These reclassifications have no impact on the previously reported profit for the year or equity.

3.21 Income tax expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.21.1 Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.21.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the financial statements based on the guidance in K-IFRS 1037. A liability related to an uncertain tax position is recognized as the best estimate of expenditure if the uncertain tax position is probable of resulting in additional payment to the tax authorities. Meanwhile assets related to uncertain tax positions, caused by a claim for rectification or an appeal for refund claimed from the tax authorities related to additional assessments, are treated as contingent assets under K-IFRS 1037. Therefore, tax expenses are recognized in the financial statements when the uncertain tax position is probable of resulting in additional payment to the tax authorities, while tax benefits are recognized only when the tax refund is virtually certain.

The Group classifies interest and penalties related to uncertain tax positions as a component of income tax expense.

3.22 Earnings per share

The Group calculates basic earnings per share amounts and diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and presents them in the statement of comprehensive income. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Group adjusts profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares including convertible bonds and share options.

3.23 Operating Segments

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes the items which are directly attributable and reasonably allocated to the segment.

4. Financial risk management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

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

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or VaR (Value at Risk) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Department

The Risk Management Department is responsible for monitoring and managing the Group's economic capital limit and managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on-or off-balance items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. For Kookmin Bank which is the main subsidiary, its loan analysis department which is independent from the sales department is responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2012 and 2011, as follows:

(in millions of Korean won)

	2012	2011
Financial assets		
Due from financial institutions	₩ 7,718,240	₩ 6,556,027
Financial assets at fair value through profit or loss		
Financial assets held for trading ¹	5,091,697	5,205,149
Financial assets designated at fair value through profit or loss	192,607	574,687
Derivatives	2,024,784	2,448,455
Loans	212,716,251	212,107,027
Financial investments		
Available-for-sale financial assets	21,834,542	19,734,531
Held-to-maturity financial assets	12,255,806	13,055,158
Other financial assets	7,554,156	6,409,905
	269,388,083	266,090,939
Off-balance items		
Acceptances and guarantees contracts	9,418,281	11,542,684
Financial guarantee contracts	1,610,269	945,167
Commitments	93,193,481	91,743,942
	104,222,031	104,231,793
	₩ 373,610,114	₩ 370,322,732

¹ Financial instruments indexed to the price of gold amounting to ₩39,839 million and ₩28,625 million as of December 31, 2012 and 2011, respectively, are included.

4.2.4 Credit risk of loans

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

The Group recognizes an impairment loss on loans carried at amortized cost when there is any objective indication of impairment. Under K-IFRS, an impairment loss is based on losses incurred at the end of the reporting period. Therefore, the Group does not recognize losses expected as a result of future events. The Group measures inherent incurred losses on loans and presents them in the financial statements through the use of an allowance account which is offset against the related loans.

Loans are classified as follows:

(in millions of Korean won)

Loans	2012											
	Retail		Corporate		Credit card		Total					
	Amount	%	Amount	%	Amount	%	Amount	%				
Neither past due nor impaired	₩	100,498,254	97.25	₩	98,002,139	97.25	₩	11,353,316	95.62	₩	209,853,709	97.16
Past due but not impaired		1,654,029	1.60		478,031	0.47		399,778	3.37		2,531,838	1.17
Impaired		1,184,586	1.15		2,293,797	2.28		120,757	1.01		3,599,140	1.67
		103,336,869	100.00		100,773,967	100.00		11,873,851	100.00		215,984,687	100.00
Allowances ¹		(687,833)	0.67		(2,251,113)	2.23		(329,490)	2.77		(3,268,436)	1.51
Carrying amount	₩	102,649,036		₩	98,522,854		₩	11,544,361		₩	212,716,251	

(in millions of Korean won)

Loans	2011											
	Retail		Corporate		Credit card		Total					
	Amount	%	Amount	%	Amount	%	Amount	%				
Neither past due nor impaired	₩	101,217,550	97.40	₩	96,553,423	97.33	₩	11,945,631	96.17	₩	209,716,604	97.29
Past due but not impaired		1,646,070	1.58		359,554	0.36		368,791	2.97		2,374,415	1.10
Impaired		1,061,585	1.02		2,295,483	2.31		106,845	0.86		3,463,913	1.61
		103,925,205	100.00		99,208,460	100.00		12,421,267	100.00		215,554,932	100.00
Allowances ¹		(635,476)	0.61		(2,462,047)	2.48		(350,382)	2.82		(3,447,905)	1.60
Carrying amount	₩	103,289,729		₩	96,746,413		₩	12,070,885		₩	212,107,027	

¹ Collectively assessing allowances for loans are included because they are not impaired individually.

Credit quality of loans that are neither past due nor impaired are as follows:

(in millions of Korean won)

	2012								
		Retail		Corporate		Credit card		Total	
Grade1		₩	82,882,712	₩	38,052,477	₩	5,674,508	₩	126,609,697
Grade2			13,874,487		40,862,148		3,871,593		58,608,228
Grade3			2,574,309		15,394,849		1,568,939		19,538,097
Grade4			766,957		3,429,806		153,906		4,350,669
Grade5			399,789		262,859		84,370		747,018
		₩	100,498,254	₩	98,002,139	₩	11,353,316	₩	209,853,709

(in millions of Korean won)

2011							
	Retail		Corporate		Credit card		Total
Grade1	₩	83,790,049	₩	35,746,858	₩	5,403,273	₩ 124,940,180
Grade2		14,532,234		39,312,628		4,378,523	58,223,385
Grade3		2,086,575		17,058,606		1,812,524	20,957,705
Grade4		451,004		4,060,283		254,467	4,765,754
Grade5		357,688		375,048		96,844	829,580
	₩	101,217,550	₩	96,553,423	₩	11,945,631	₩ 209,716,604

Credit quality of loans is classified as follows, according to the internal credit rating:

	Range of PD (%) (Probability of Default)	Retail	Corporate
Grade1	0.0 ~ 1.0	1 ~ 5 grade	AAA ~ BBB+
Grade2	1.0 ~ 5.0	6 ~ 8 grade	BBB ~ BB
Grade3	5.0 ~ 15.0	9 ~ 10 grade	BB- ~ B
Grade4	15.0 ~ 30.0	11 grade	B- ~ CCC
Grade5	30.0 ~	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(in millions of Korean won)

2012									
	1 ~ 29 days		30 ~ 59 days		60 ~ 89 days		over 90 days		Total
Retail	₩	1,342,841	₩	223,653	₩	87,453	₩	82	₩ 1,654,029
Corporate		322,512		125,503		28,153		1,863	478,031
Credit card		293,864		57,324		47,698		892	399,778
	₩	1,959,217	₩	406,480	₩	163,304	₩	2,837	₩ 2,531,838

(in millions of Korean won)

2011									
	1 ~ 29 days		30 ~ 59 days		60 ~ 89 days		over 90 days		Total
Retail	₩	1,361,218	₩	181,343	₩	103,340	₩	169	₩ 1,646,070
Corporate		196,591		138,817		24,146		-	359,554
Credit card		242,975		71,518		53,667		631	368,791
	₩	1,800,784	₩	391,678	₩	181,153	₩	800	₩ 2,374,415

Impaired loans are as follows:

(in millions of Korean won)

2012								
	Retail		Corporate		Credit card	Total		
Loans	₩	1,184,586	₩	2,293,797	₩	120,757	₩	3,599,140
Allowances								
Individual assessment		-		(761,563)		-		(761,563)
Collective assessment		(451,885)		(236,062)		(72,373)		(760,320)
		(451,885)		(997,625)		(72,373)		(1,521,883)
	₩	732,701	₩	1,296,172	₩	48,384	₩	2,077,257

(in millions of Korean won)

2011								
	Retail		Corporate		Credit card	Total		
Loans	₩	1,061,585	₩	2,295,483	₩	106,845	₩	3,463,913
Allowances								
Individual assessment		-		(999,787)		-		(999,787)
Collective assessment		(397,623)		(251,790)		(68,513)		(717,926)
		(397,623)		(1,251,577)		(68,513)		(1,717,713)
	₩	663,962	₩	1,043,906	₩	38,332	₩	1,746,200

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2012 and 2011, follows:

(in millions of Korean won)

2012										
	Impaired Loans			Non-impaired Loans		Total				
	Individual	Collective	Past due	Not past due						
Guarantees	₩	18,512	₩	181,979	₩	326,676	₩	25,175,205	₩	25,702,372
Deposits and savings		200		19,502		60,831		2,526,512		2,607,045
Property and equipment		18,776		4,816		883		1,427,940		1,452,415
Real estate		329,743		478,728		1,200,988		109,195,555		111,205,014
	₩	367,231	₩	685,025	₩	1,589,378	₩	138,325,212	₩	140,966,846

(in millions of Korean won)

	2011					
	Impaired Loans		Non-impaired Loans		Total	
	Individual	Collective	Past due	Not past due		
Guarantees	₩ 21,210	₩ 124,641	₩ 173,708	₩ 18,345,603	₩ 18,665,162	
Deposits and savings	-	31,037	69,880	2,654,151	2,755,068	
Property and equipment	12,648	4,717	1,671	1,067,929	1,086,965	
Real estate	176,022	398,292	1,158,298	105,470,158	107,202,770	
	₩ 209,880	₩ 558,687	₩ 1,403,557	₩ 127,537,841	₩ 129,709,965	

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments excluding equity securities that are exposed to credit risk are as follows:

(in millions of Korean won)

	2012	2011
Securities that are neither past due nor impaired	₩ 39,322,368	₩ 38,531,825
Impaired securities	12,445	9,075
	₩ 39,334,813	₩ 38,540,900

The credit quality of securities (excluding equity securities) that are neither past due nor impaired as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 4,816,844	₩ 205,577	₩ 29,437	₩ -	₩ -	₩ 5,051,858
Financial assets designated at fair value through profit or loss	84,428	108,179	-	-	-	192,607
Available-for-sale financial assets	20,616,413	1,128,960	76,669	56	-	21,822,098
Held-to-maturity financial assets	12,255,805	-	-	-	-	12,255,805
	₩ 37,773,490	₩ 1,442,716	₩ 106,106	₩ 56	₩ -	₩ 39,322,368

(in millions of Korean won)

	2011					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 5,079,469	₩ 88,144	₩ 8,911	₩ -	₩ -	₩ 5,176,524
Financial assets designated at fair value through profit or loss	238,085	336,602	-	-	-	
Available-for-sale financial assets	18,458,778	1,224,835	41,911	90	-	19,725,614
Held-to-maturity financial assets	13,055,000	-	-	-	-	13,055,000
	₩ 36,831,332	₩ 1,649,581	₩ 50,822	₩ 90	₩ -	₩ 38,531,825

The credit qualities of securities (excluding equity securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KIS	KAP	NICE	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit rating by three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk of derivative financial instruments as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)

	2012		2011	
Deposits and savings, Securities and others	₩	216,906	₩	68,731
	₩	216,906	₩	68,731

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012							
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
Korea	₩ 103,264,896	₩ 98,921,443	₩ 11,871,321	₩ 214,057,660	99.11	₩ (3,249,627)	₩ 210,808,033
Europe	3	80,454	378	80,835	0.04	(288)	80,547
China	319	429,781	287	430,387	0.20	(2,372)	428,015
Japan	7,944	885,607	437	893,988	0.41	(14,273)	879,715
U.S.	-	308,846	454	309,300	0.14	(478)	308,822
Others	63,707	147,836	974	212,517	0.10	(1,398)	211,119
Total	₩ 103,336,869	₩ 100,773,967	₩ 11,873,851	₩ 215,984,687	100.00	₩ (3,268,436)	₩ 212,716,251

(in millions of Korean won)

2011							
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
Korea	₩ 103,855,183	₩ 97,298,342	₩ 12,420,318	₩ 213,573,843	99.08	₩ (3,428,520)	₩ 210,145,323
Europe	11	69,004	110	69,125	0.03	(555)	68,570
China	434	315,375	37	315,846	0.15	(1,961)	313,885
Japan	11,914	1,014,607	301	1,026,822	0.48	(14,976)	1,011,846
U.S.	-	412,669	272	412,941	0.19	(432)	412,509
Others	57,663	98,463	229	156,355	0.07	(1,461)	154,894
Total	₩ 103,925,205	₩ 99,208,460	₩ 12,421,267	₩ 215,554,932	100.00	₩ (3,447,905)	₩ 212,107,027

The details of the Group's corporate loans by industry as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012				
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 7,221,302	7.17	₩ (10,936)	₩ 7,210,366
Manufacturing	31,319,370	31.08	(931,441)	30,387,929
Service	38,649,493	38.35	(477,559)	38,171,934
Wholesale & Retail	15,124,389	15.01	(230,865)	14,893,524
Construction	4,688,691	4.65	(528,284)	4,160,407
Public sector	520,422	0.52	(7,076)	513,346
Others	3,250,300	3.22	(64,952)	3,185,348
	₩ 100,773,967	100.00	₩ (2,251,113)	₩ 98,522,854

(in millions of Korean won)

	2011			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 5,839,148	5.89	₩ (57,335)	₩ 5,781,813
Manufacturing	31,762,908	32.01	(852,707)	30,910,201
Service	36,305,778	36.60	(547,148)	35,758,630
Wholesale & Retail	15,639,010	15.76	(232,482)	15,406,528
Construction	5,674,858	5.72	(729,055)	4,945,803
Public sector	310,978	0.31	(5,190)	305,788
Others	3,675,780	3.71	(38,130)	3,637,650
	₩ 99,208,460	100.00	₩ (2,462,047)	₩ 96,746,413

The details of the Group's retail and credit card loans by type as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 44,874,081	38.95	₩ (109,489)	₩ 44,764,592
General purpose	58,462,788	50.74	(578,344)	57,884,444
Credit card	11,873,851	10.31	(329,490)	11,544,361
	₩ 115,210,720	100.00	₩ (1,017,323)	₩ 114,193,397

(in millions of Korean won)

	2011			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 45,519,956	39.12	₩ (96,963)	₩ 45,422,993
General purpose	58,405,249	50.20	(538,513)	57,866,736
Credit card	12,421,267	10.68	(350,382)	12,070,885
	₩ 116,346,472	100.00	₩ (985,858)	₩ 115,360,614

The details of the Group's securities (excluding equity securities) and derivative financial instruments by industry as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 1,913,601	37.88
Banking and Insurance	2,518,715	49.86
Others	619,542	12.26
	5,051,858	100.00
Financial assets designated at fair value through profit or loss		
Banking and Insurance	192,607	100.00
	192,607	100.00
Derivative financial assets		
Government and government funded institutions	29,236	1.44
Banking and Insurance	1,858,862	91.81
Others	136,686	6.75
	2,024,784	100.00
Available-for-sale financial assets		
Government and government funded institutions	10,355,155	47.43
Banking and Insurance	8,875,248	40.65
Others	2,604,139	11.92
	21,834,542	100.00
Held-to-maturity financial assets		
Government and government funded institutions	9,854,991	80.42
Banking and Insurance	1,593,713	13.00
Others	807,102	6.58
	12,255,806	100.00
	₩ 41,359,597	

(in millions of Korean won)

	2011	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 1,785,624	34.49
Banking and Insurance	2,972,087	57.41
Others	418,813	8.10
	5,176,524	100.00

(in millions of Korean won)

	2011	
	Amount	%
Financial assets designated at fair value through profit or loss		
Banking and Insurance	574,687	100.00
	574,687	100.00
Derivative financial assets		
Government and government funded institutions	40,068	1.64
Banking and Insurance	1,428,140	58.33
Others	980,247	40.03
	2,448,455	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,483,273	42.99
Banking and Insurance	8,189,563	41.50
Others	3,061,695	15.51
	19,734,531	100.00
Held-to-maturity financial assets		
Government and government funded institutions	10,732,519	82.21
Banking and Insurance	1,463,937	11.21
Others	858,702	6.58
	13,055,158	100.00
	₩ 40,989,355	

The details of the Group's securities (excluding equity securities) and derivative financial instruments by country, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	
	Amount	%
Financial assets held for trading		
Korea	₩ 5,051,858	100.00
	5,051,858	100.00
Financial assets designated at fair value through profit or loss		
Korea	192,607	100.00
	192,607	100.00
Derivative financial assets		
Korea	638,817	31.55
United States	366,827	18.12
Others	1,019,140	50.33
	2,024,784	100.00

(in millions of Korean won)

	2012	
	Amount	%
Available-for-sale financial assets		
Korea	21,657,311	99.19
United States	176,394	0.81
Others	837	0.00
	21,834,542	100.00
Held-to-maturity financial assets		
Korea	12,255,805	100.00
United States	1	0.00
	12,255,806	100.00
	₩ 41,359,597	

(in millions of Korean won)

	2011	
	Amount	%
Financial assets held for trading		
Korea	₩ 5,176,524	100.00
	5,176,524	100.00
Financial assets designated at fair value through profit or loss		
Korea	574,687	100.00
	574,687	100.00
Derivative financial assets		
Korea	1,436,182	58.66
United States	275,429	11.25
Others	736,844	30.09
	2,448,455	100.00
Available-for-sale financial assets		
Korea	19,552,797	99.08
United States	180,832	0.92
Others	902	0.00
	19,734,531	100.00
Held-to-maturity financial assets		
Korea	13,055,000	100.00
United States	158	0.00
	13,055,158	100.00
	₩ 40,989,355	

(in millions of Korean won)

	2012						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss ²	352,090	-	-	-	-	-	352,090
Derivatives held for trading ²	1,841,273	-	-	-	-	-	1,841,273
Derivatives held for fair value hedging ³	-	6,645	929	18,600	125,511	163,808	315,493
Loans	180,872	22,270,266	24,804,731	76,117,318	57,614,670	78,036,743	259,024,600
Available-for-sale financial assets ⁴	1,399,487	1,144,817	1,657,583	4,867,026	13,522,904	3,246,902	25,838,719
Held-to-maturity financial assets	-	142,902	362,905	2,525,112	8,753,186	2,192,044	13,976,149
Other financial assets	34,472	5,522,930	14,050	1,561,002	5,843	1,853	7,140,150
	₩ 15,682,209	₩ 29,674,416	₩ 26,915,721	₩ 85,278,084	₩ 80,022,114	₩ 83,777,934	₩ 321,350,478
Financial liabilities							
Financial liabilities held for trading ²	₩ 1,381,997	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,381,997
Financial liabilities designated at fair value through profit or loss ²	469,138	-	-	-	-	-	469,138
Derivatives held for trading ²	1,868,287	-	-	-	-	-	1,868,287
Derivatives held for fair value hedging ³	-	26,041	3	(1,456)	189,613	2,396	216,597
Deposits ⁵	66,973,382	16,388,693	29,403,451	79,020,220	7,634,188	697,398	200,117,332
Debts	273,586	3,854,683	2,854,083	5,675,606	2,879,533	662,557	16,200,048
Debentures	24,659	1,283,340	1,028,400	3,576,694	18,202,836	4,020,164	28,136,093
Other financial liabilities	12,878	7,069,299	8,624	75,325	272,830	22,041	7,460,997
	₩ 71,003,927	₩ 28,622,056	₩ 33,294,561	₩ 88,346,389	₩ 29,179,000	₩ 5,404,556	₩ 255,850,489

(in millions of Korean won)

		2012						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	
Off- balance items								
Commitments ⁶	₩ 93,193,481	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 93,193,481	
Financial guarantee contracts ⁷	1,610,269	-	-	-	-	-	1,610,269	
	₩ 94,803,750	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 94,803,750	

(in millions of Korean won)

		2011						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	
Financial assets								
Cash and due from financial institutions ¹	₩ 4,453,019	₩ 303,624	₩ 76,508	₩ 89,831	₩ 4	₩ 119,097	₩ 5,042,083	
Financial assets held for trading ²	5,617,257	-	-	-	-	-	5,617,257	
Financial assets designated at fair value through profit or loss ²	708,847	-	-	-	-	-	708,847	
Derivatives held for trading ²	2,220,314	-	-	-	-	-	2,220,314	
Derivatives held for fair value hedging ³	-	9,502	(4,709)	28,399	148,990	346,779	528,961	
Loans	97,595	22,337,365	27,042,768	76,893,033	56,899,525	79,060,029	262,330,315	
Available-for-sale financial assets ⁴	2,240,727	1,408,252	2,604,981	4,785,474	10,153,262	4,012,911	25,205,607	
Held-to-maturity financial assets	-	198,914	611,115	2,227,089	9,397,778	2,854,547	15,289,443	
Other financial assets	16,079	3,933,496	2,253	1,569,281	14,548	11,487	5,547,144	
	₩15,353,838	₩ 28,191,153	₩ 30,332,916	₩ 85,593,107	₩ 76,614,107	₩ 86,404,850	₩322,489,971	

(in millions of Korean won)

	2011							Total
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Financial liabilities								
Financial liabilities held for trading ²	₩ 550,873	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 550,873
Financial liabilities designated at fair value through profit or loss ²	837,206	-	-	-	-	-	-	837,206
Derivatives held for trading ²	1,905,343	-	-	-	-	-	-	1,905,343
Derivatives held for fair value hedging ³	-	(378)	28,613	(1,427)	129,600	6,744		163,152
Deposits ⁵	62,496,734	19,301,815	27,509,188	77,736,839	8,954,242	509,831		196,508,649
Debts	365,944	2,433,558	3,377,097	7,222,927	3,278,067	605,826		17,283,419
Debentures	24,260	4,098,529	1,516,938	6,220,672	15,047,649	4,737,050		31,645,098
Other financial liabilities	-	5,488,548	20,474	24,245	187,882	122,718		5,843,867
	₩ 66,180,360	₩ 31,322,072	₩ 32,452,310	₩ 91,203,256	₩ 27,597,440	₩ 5,982,169		₩ 254,737,607
Off- balance items								
Commitments ⁶	₩ 91,743,942	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 91,743,942
Financial guarantee contracts ⁷	945,167	-	-	-	-	-	-	945,167
	₩ 92,689,109	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 92,689,109

¹ The amounts of ₩ 3,646,611 million and ₩ 4,177,347 million which are restricted amounts due from the financial institutions as of December 31, 2012 and 2011, respectively, are excluded.

² Financial instruments held for trading, financial instruments designated at fair value through profit or loss and derivatives held for trading are not managed by contractual maturity because they are expected to be traded or redeemed before maturity. Therefore, the carrying amounts of those financial instruments are classified as 'On demand' category.

³ Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

⁴ Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category because most of them are available for sale at anytime. However, in the case of equity investments restricted for sale, they are shown in the period in which the restriction is expected to be lifted.

⁵ Deposits that are contractually repayable on demand or on short notice are classified as 'On demand' category.

⁶ Commitments are included in the 'On demand' category because payments can be required upon request.

⁷ The financial guarantee contracts are included in the 'On demand' category because payments can be required upon request.

The contractual cash flows of derivatives held for cash flow hedging as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		2012					
		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
To be received	₩	3,321	₩ 4,931	₩ 23,486	₩ 357,927	₩ -	₩ 389,665
To be paid		(3,864)	(6,277)	(29,702)	(366,291)	-	(406,134)

(in millions of Korean won)

		2011					
		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
To be received	₩	1,139	₩ 2,864	₩ 11,690	₩ 371,807	₩ -	₩ 387,500
To be paid		(1,446)	(3,380)	(14,160)	(354,042)	-	(373,028)

4.4 Market risk

4.4.1 Overview of market risk

Definition of market risk

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments, such as securities and derivatives amongst others. The most significant risks associated with trading positions are interest rate risks, and other risks are stock price risks and currency risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions. The Group measures and manages market risk separately for each subsidiary in the Group.

Market risk management group

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, and market risk management guidelines for trading positions, and interest rate risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

As the main subsidiary, Kookmin Bank establishes market risk management policy, sets position limits, loss limits and VAR limits of each business group and approves newly developed derivative instruments, through its Risk Management Council. The Risk Management Council has delegated the responsibility for market risk management of individual business departments to the Market Risk Management Committee which is chaired by a Chief Risk Officer (CRO). The Market Risk Management Committee sets VaR limits, position limits, loss limits, scenario loss limits and sensitivity limits for each division, at the level of each individual business department.

The ALCO of Kookmin Bank determines operational standards of interest and commission, revises Asset Liability Management (ALM) risk management guidelines, interest rate and commission guidelines and monitors establishment and enforcement of ALM risk management policies. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility

estimated reflecting the annual work plan. The financial management department and risk management department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks such as interest rate gap, duration gap and sensitivity are reported to the ALCO on a monthly basis and to the Risk Management Council on a quarterly basis. The responsibility for ALM control is delegated to the Risk Management Department to ensure adequacy of interest rate and liquidity risk management. The Risk Management Department monitors and reviews risk management procedures and tasks conducted by the Financial Management Department, and reports related information to management independently.

4.4.2 Trading Position

Definition of a trading position

Trading positions subject to market risk management are defined under the Trading Policy and Guideline, and basic requirements are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and Guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

VaR (Value at Risk)

i. VaR (Value at Risk)

The Group uses the value-at-risk methodology to measure the market risk of trading positions. There have been changes in market risk measurement technique during the year ended December 31, 2012, and the detailed descriptions are below.

Previous method: The Group used a daily VaR measure, which is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. The Group calculated VaR using the equal-weighted average method based on historical changes in market rates, prices and volatilities over the previous 550 business days and measured VaR at a 99% single tail confidence level.

Current method: The Group now uses the 10-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered as a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results. However, the KB Investment & Securities Co., Ltd. calculates ten-day VaR using the equal-weighted average method based on historical changes in market rates, prices and volatilities over the previous 250 business days and measures VaR at a 99% single tail confidence level.

These changes in market risk measurement technique are intended to reflect the volatilities of the market more accurately. The current method immediately reflects the scenario of a day when the financial market shows dramatic moves, and the market risk of financial instruments with complex risk attributes can be measured more appropriately than under the previous methodology.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. Also, general and individual risks in some positions included in the consolidated financial statements in adoption of K-IFRS, are measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the market risk model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group mainly uses an historical scenario tool and also uses a hypothetical scenario tool for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99% confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by subsidiary as of December 31, 2012, and one-day holding period by subsidiary as of December 31, 2011, are as follows:

Kookmin Bank

(in millions of Korean won)

	2012			
	Average ¹	Minimum ¹	Maximum ¹	Ending
Interest rate risk	₩ 12,052	₩ 4,742	₩ 18,589	₩ 4,747
Stock price risk	2,847	331	5,585	4,309
Foreign exchange rate risk	26,565	9,590	39,185	11,201
Deduction of diversification effect	-	-	-	(12,217)
Total VaR	₩ 18,337	₩ 6,902	₩ 27,542	₩ 8,040

¹ The average, minimum and maximum amounts are based on the data from the beginning of May to the end of December.

(in millions of Korean won)

	2011			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 2,537	₩ 1,430	₩ 4,019	₩ 1,866
Stock price risk	725	86	2,569	1,161
Foreign exchange rate risk	6,464	4,187	12,610	4,882
Deduction of diversification effect	-	-	-	(3,141)
Total VaR	₩ 6,206	₩ 4,000	₩ 11,992	₩ 4,768

KB Investment & Securities Co., Ltd.

(in millions of Korean won)

	2012			
	Average ¹	Minimum ¹	Maximum ¹	Ending
Interest rate risk	₩ 1,805	₩ 572	₩ 5,054	₩ 3,532
Stock price risk	2,350	486	8,683	658
Foreign exchange rate risk	309	18	1,329	224
Deduction of diversification effect	-	-	-	(763)
Total VaR	₩ 3,119	₩ 724	₩ 8,752	₩ 3,651

¹ The average, minimum and maximum amounts are based on the ten day VaR data from the beginning of April to the end of December.

(in millions of Korean won)

	2011			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 410	₩ 131	₩ 1,046	₩ 413
Stock price risk	659	350	1,643	444
Foreign exchange rate risk	161	15	586	57
Deduction of diversification effect	-	-	-	(329)
Total VaR	₩ 819	₩ 381	₩ 1,885	₩ 585

KB Life Insurance Co., Ltd.

(in millions of Korean won)

	2012			
	Average ¹	Minimum ¹	Maximum ¹	Ending
Interest rate risk	₩ 111	₩ 58	₩ 152	₩ 127
Deduction of diversification effect	-	-	-	-
Total VaR	₩ 111	₩ 58	₩ 152	₩ 127

¹ The average, minimum and maximum amounts are based on the data from the beginning of April to the end of December.

(in millions of Korean won)

	2011							
	Average		Minimum		Maximum		Ending	
Interest rate risk	₩	23	₩	10	₩	53	₩	12
Deduction of diversification effect		-		-		-		-
Total VaR	₩	23	₩	10	₩	53	₩	12

KB Investment Co., Ltd.

(in millions of Korean won)

	2012							
	Average ¹		Minimum ¹		Maximum ¹		Ending	
Foreign exchange rate risk	₩	63	₩	39	₩	92	₩	41
Deduction of diversification effect		-		-		-		-
Total VaR	₩	63	₩	39	₩	92	₩	41

¹ The average, minimum and maximum amounts are based on the data from the beginning of April to the end of December.

(in millions of Korean won)

	2011							
	Average		Minimum		Maximum		Ending	
Foreign exchange rate risk	₩	31	₩	26	₩	52	₩	28
Deduction of diversification effect		-		-		-		-
Total VaR	₩	31	₩	26	₩	52	₩	28

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR as of December 31, 2012 and 2011, is as follows:

Kookmin Bank

(in millions of Korean won)

	2012		2011	
	Interest rate risk	₩	578	₩
Stock price risk		4,567		21,279
Foreign exchange rate risk		9,081		9,561
	₩	14,226	₩	54,442

KB Investment & Securities Co., Ltd.

(in millions of Korean won)

	2012		2011	
Interest rate risk	₩	4,607	₩	3,911
Stock price risk		3,224		10,212
	₩	7,831	₩	14,123

KB Life Insurance Co., Ltd.

(in millions of Korean won)

	2012		2011	
Stock price risk	₩	13	₩	-
	₩	13	₩	-

KB Investment Co., Ltd.

(in millions of Korean won)

	2012		2011	
Stock price risk	₩	1,385	₩	-
	₩	1,385	₩	-

As of December 31, 2011, the standardized method was used to measure trading positions' interest rate, stock price and foreign exchange rate risk of private equity funds which are in the scope of subsidiaries. Those positions' market risks have been included in VaR during the year ended December 31, 2012.

Details of risk factors**i. Interest rate risk**

Trading position interest rate risk usually arises from debt securities in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.3 Non-trading position

Definition of non-trading position

The most critical market risk that arises in non-trading portfolios is interest rate risk. Interest rate risk occurs due to mismatches on maturities and interest rate change periods between interest sensitive assets and liabilities. The Group measures interest rate risk arising from assets and liabilities denominated in Korean won and foreign currencies including derivative financial instruments held for hedging. Most interest-bearing assets and interest-bearing liabilities are denominated in Korean won. Most foreign currency assets and liabilities are denominated in US Dollars and the remainder in Japanese Yen or Euro.

Observation method on market risk arising from non-trading position

The main objective of interest rate risk management is to generate stable net interest income and to protect asset values against interest rate fluctuations. The Group manages the risk through interest rate gap analysis on interest rate maturities between interestbearing assets and interest-bearing liabilities and measuring interest rate VaR.

Disclosure of results from each observation method

i. Interest rate gap analysis

Interest rate gap analysis is based on the interest rates repricing dates for interest-bearing assets and interest-bearing liabilities. It measures expected changes in net interest income by calculating the difference in the amounts of interest-bearing assets and interest-bearing liabilities in each maturity bucket. The Group conducts interest gap analysis on assets denominated in Korean won and foreign currencies on a monthly basis. However, where there is no contractual maturity for a particular instrument, then a maturity date is set according to internal liquidity risk management guidelines.

The results of the interest rate gap analysis by subsidiary as of December 31, 2012 and 2011, are as follows:

Kookmin Bank

(in millions of Korean won)

	2012					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 91,875,926	₩ 50,777,686	₩ 36,985,241	₩ 23,433,532	₩ 16,552,365	₩ 219,624,750
Interest-bearing liabilities in Korean won	89,554,290	35,360,899	49,687,125	22,185,102	15,961,551	212,748,967
Gap	₩ 2,321,636	₩ 15,416,787	₩ (12,701,884)	₩ 1,248,430	₩ 590,814	₩ 6,875,783
Accumulated gap	2,321,636	17,738,423	5,036,539	6,284,969	6,875,783	
Percentage (%)	1.06	8.08	2.29	2.86	3.13	
Interest-bearing assets in foreign currencies	₩ 10,105,090	₩ 2,090,551	₩ 718,802	₩ 641,281	₩ 121,700	₩ 13,677,424
Interest-bearing liabilities in foreign currencies	8,218,370	3,533,356	1,964,078	513,647	117,821	14,347,272
Gap	₩ 1,886,720	₩ (1,442,805)	₩ (1,245,276)	₩ 127,634	₩ 3,879	₩ (669,848)
Accumulated gap	1,886,720	443,915	(801,361)	(673,727)	(669,848)	
Percentage (%)	13.79	3.25	(5.86)	(4.93)	(4.90)	

(in millions of Korean won)

	2011					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 109,769,309	₩ 53,264,820	₩ 26,293,288	₩ 16,619,523	₩ 9,309,082	₩ 215,256,022
Interest-bearing liabilities in Korean won	91,469,293	0,487,095	54,100,542	20,867,820	13,169,891	210,094,641
Gap	₩ 18,300,016	₩ 22,777,725	₩ (27,807,254)	₩ (4,248,297)	₩ (3,860,809)	₩ 5,161,381
Accumulated gap	18,300,016	41,077,741	13,270,487	9,022,190	5,161,381	
Percentage (%)	8.50	19.08	6.16	4.19	2.40	
Interest-bearing assets in foreign currencies	₩ 13,009,331	₩ 2,081,836	₩ 1,015,797	₩ 899,201	₩ 139,646	₩ 17,145,811
Interest-bearing liabilities in foreign currencies	11,246,216	3,871,630	2,151,126	205,522	46,132	17,520,626
Gap	₩ 1,763,115	₩ (1,789,794)	₩ (1,135,329)	₩ 693,679	₩ 93,514	₩ (374,815)
Accumulated gap	1,763,115	(26,679)	(1,162,008)	(468,329)	(374,815)	
Percentage (%)	10.28	(0.16)	(6.78)	(2.73)	(2.19)	

KB Kookmin Card Co., Ltd.

(in millions of Korean won)

	2012					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 2,743,651	₩ 802,981	₩ 1,100,429	₩ 8,453,580	₩ 9,765	₩ 13,110,406
Interest-bearing liabilities in Korean won	1,370,000	260,000	1,310,000	3,921,800	2,221,000	9,082,800
Gap	₩ 1,373,651	₩ 542,981	₩ (209,571)	₩ 4,531,780	₩ (2,211,235)	₩ 4,027,606
Accumulated gap	1,373,651	1,916,632	1,707,061	6,238,841	4,027,606	
Percentage (%)	10.48	14.62	13.02	47.59	30.72	

(in millions of Korean won)

2011						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 3,057,388	₩ 683,327	₩ 884,063	₩ 8,288,959	₩ 7,125	₩ 12,920,862
Interest-bearing liabilities in Korean won	1,811,500	860,000	2,530,000	3,052,800	1,170,000	9,424,300
Gap	₩ 1,245,888	₩ (176,673)	₩ (1,645,937)	₩ 5,236,159	₩ (1,162,875)	₩ 3,496,562
Accumulated gap	1,245,888	1,069,215	(576,722)	4,659,437	3,496,562	
Percentage (%)	9.64	8.28	(4.46)	36.06	27.06	

KB Investment & Securities Co., Ltd.

(in millions of Korean won)

2012						
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 342,543	₩ 75,000	₩ 66,032	₩ 100,000	₩ 2,291	₩ 585,866
Interest-bearing liabilities in Korean won	339,444	30,000	100,000	-	-	469,444
Gap	₩ 3,099	₩ 45,000	₩ (33,968)	₩ 100,000	₩ 2,291	₩ 116,422
Accumulated gap	3,099	48,099	14,131	114,131	116,422	
Percentage (%)	0.53	8.21	2.41	19.48	19.87	
Interest-bearing assets in foreign currencies	₩ 2,263	₩ -	₩ -	₩ -	₩ -	₩ 2,263
Interest-bearing liabilities in foreign currencies	-	-	-	-	-	-
Gap	₩ 2,263	₩ -	₩ -	₩ -	₩ -	₩ 2,263
Accumulated gap	2,263	2,263	2,263	2,263	2,263	
Percentage (%)	100.00	100.00	100.00	100.00	100.00	

(in millions of Korean won)

	2011					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 599,877	₩ 103,522	₩ 108,031	₩ 10,002	₩ 2,517	₩ 823,949
Interest-bearing liabilities in Korean won	482,001	70,000	-	49,470	-	601,471
Gap	₩ 117,876	₩ 33,522	₩ 108,031	₩ (39,468)	₩ 2,517	₩ 222,478
Accumulated gap	117,876	151,398	259,429	219,961	222,478	
Percentage (%)	14.31	18.37	31.49	26.70	27.00	
Interest-bearing assets in foreign currencies	₩ 2,068	₩ -	₩ -	₩ -	₩ -	₩ 2,068
Interest-bearing liabilities in foreign currencies	-	-	-	-	-	-
Gap	₩ 2,068	₩ -	₩ -	₩ -	₩ -	₩ 2,068
Accumulated gap	2,068	2,068	2,068	2,068	2,068	
Percentage (%)	100.00	100.00	100.00	100.00	100.00	

KB Life Insurance Co., Ltd.

(in millions of Korean won)

	2012					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won	₩ 133,084	₩ 100,088	₩ 640,829	₩ 1,106,126	₩ 2,482,444	₩ 4,462,571
Interest-bearing liabilities in Korean won	24,616	67,092	4,131,620	20,525	531,472	4,775,325
Gap	₩ 108,468	₩ 32,996	₩ (3,490,791)	₩ 1,085,601	₩ 1,950,972	₩ (312,754)
Accumulated gap	108,468	141,464	(3,349,327)	(2,263,726)	(312,754)	
Percentage (%)	2.43	3.17	(75.05)	(50.73)	(7.01)	

(in millions of Korean won)

2011												
	Up to 3 months		3~6 months		6~12 months		1~3 years		Over 3 years		Total	
Interest-bearing assets in Korean won	₩	228,597	₩	137,620	₩	386,143	₩	820,641	₩	1,917,627	₩	3,490,628
Interest-bearing liabilities in Korean won		60,048		45,817		2,853,620		29,087		541,782		3,530,354
Gap	₩	168,549	₩	91,803	₩	(2,467,477)	₩	791,554	₩	1,375,845	₩	(39,726)
Accumulated gap		168,549		260,352		(2,207,125)		(1,415,571)		(39,726)		
Percentage (%)		4.83		7.46		(63.23)		(40.55)		(1.14)		

KB Savings Bank Co., Ltd.

(in millions of Korean won)

2012												
	Up to 3 months		3~6 months		6~12 months		1~3 years		Over 3 years		Total	
Interest-bearing assets in Korean won	₩	251,570	₩	81,607	₩	90,543	₩	42,725	₩	180,729	₩	647,174
Interest-bearing liabilities in Korean won		90,061		96,665		280,717		26,750		2,788		496,981
Gap	₩	161,509	₩	(15,058)	₩	(190,174)	₩	15,975	₩	177,941	₩	150,193
Accumulated gap		161,509		146,451		(43,723)		(27,748)		150,193		
Percentage (%)		24.96		22.63		(6.76)		(4.29)		23.21		

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk at a 99.94% confidence level. The measurement results of risk as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Kookmin Bank	₩	179,310	₩	847,865
KB Kookmin Card Co., Ltd.		41,867		124,681
KB Investment & Securities Co., Ltd.		5,525		8,213
KB Life Insurance Co., Ltd.		156,474		127,328
KB Savings Bank Co., Ltd.		2,224		-

During the year ended December 31, 2012, the Group changed its method of calculating the interest rate impact from a simulation method which applied probable interest rate scenarios to an historical simulation method which uses historical interest rate data. These changes are for a more sophisticated interest rate risk measurement, considering the practical scenarios, the model appropriateness, practical application as well as easy comprehension.

4.4.4 Financial instruments in foreign currencies

Financial instruments in foreign currencies as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012							Total
	USD	JPY	EUR	GBP	CNY	Others		
Financial Assets								
Cash and due from financial institutions	₩ 868,238	₩ 162,793	₩ 89,429	₩ 13,544	₩ 20,625	₩ 82,967	₩ 1,237,596	
Derivatives held for trading	106,215	150	1,267	-	-	-	107,632	
Derivatives held for hedging	21,794	-	-	-	-	-	21,794	
Loans	9,185,177	2,185,242	528,812	139,134	883	169,483	12,208,731	
Available-for-sale financial assets	805,335	21,313	17,315	1,109	-	1,504	846,576	
Held-to-maturity financial assets	1	-	-	-	-	-	1	
Other financial assets	542,200	51,020	100,883	1,388	-	109,452	804,943	
	₩ 11,528,960	₩ 2,420,518	₩ 737,706	₩ 155,175	₩ 21,508	₩ 363,406	₩ 15,227,273	
Financial liabilities								
Derivatives held for trading	₩ 180,324	₩ 177	₩ 1,753	₩ -	₩ -	₩ -	₩ 182,254	
Deposits	3,767,148	611,386	210,837	17,243	2,793	290,124	4,899,531	
Debts	5,034,710	1,765,338	513,294	32,745	48	189,897	7,536,032	
Debentures	2,006,660	550,037	249,668	-	-	355,382	3,161,747	
Other financial liabilities	1,195,579	59,932	26,234	109,670	39	30,135	1,421,589	
	₩ 12,184,421	₩ 2,986,870	₩ 1,001,786	₩ 159,658	₩ 2,880	₩ 865,538	₩ 17,201,153	
Off-balance items	₩ 15,948,842	₩ 4,537	₩ 5,566	₩ 4,760	₩ -	₩ 7,980	₩ 15,971,685	

(in millions of Korean won)

	2011							Total
	USD	JPY	EUR	GBP	CNY	Others		
Financial Assets								
Cash and due from financial institutions	₩ 600,886	₩ 112,395	₩ 73,159	₩ 12,571	₩ 25,088	₩ 72,379	₩ 896,478	
Derivatives held for trading	89,851	-	1,027	-	-	-	90,878	

(in millions of Korean won)

	2011						
	USD	JPY	EUR	GBP	CNY	Others	Total
Derivatives held for hedging	37,669	-	-	-	-	-	37,669
Loans	11,129,173	2,589,314	753,075	46,149	215	220,212	14,738,138
Available-for-sale financial assets	1,101,434	59,900	18,546	782	-	1,595	1,182,257
Held-to-maturity financial assets	158	-	-	-	-	-	158
Other financial assets	1,178,711	227,508	147,019	3,732	-	105,358	1,662,328
	₩ 14,137,882	₩ 2,989,117	₩ 992,826	₩ 63,234	₩ 25,303	₩ 399,544	₩ 18,607,906
Financial liabilities							
Derivatives held for trading	₩ 221,135	₩ -	₩ 1,695	₩ -	₩ -	₩ -	₩ 222,830
Derivatives held for hedging	34	-	-	-	-	-	34
Deposits	3,318,285	598,055	164,087	11,959	231	256,987	4,349,604
Debts	6,554,932	1,987,560	839,649	4,261	217	236,713	9,623,332
Debentures	2,728,700	816,320	335,169	-	-	68,843	3,949,032
Other financial liabilities	866,202	132,752	22,765	50,604	18	27,360	1,099,701
	₩ 13,689,288	₩ 3,534,687	₩ 1,363,365	₩ 66,824	₩ 466	₩ 589,903	₩ 19,244,533
Off-balance items	₩ 17,462,188	₩ 123,039	₩ 195,591	₩ 5,438	₩ 62	₩ 69,450	₩ 17,855,768

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, Kookmin Bank established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6. Capital Adequacy

The Group assesses its adequacy of capital by using the Internal Rating Based Approach (the 'IRBA'). The assessment is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under the target credit rate set by the Group). The Group monitors the soundness of finance and provides a risk adjusted basis for performance review.

Economic Capital is the necessary capital to prevent the inability of payment due to unexpected loss in the future. The Group measures, allocates and monitors economic capital by risk type and subsidiaries.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and subsidiary. Each subsidiary efficiently operates its capital within a range of allocated economic capital. The Risk Management Department of the Group monitors the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion.

The Group is a financial holding company under the Financial Holding Companies Act. It must maintain a consolidated BIS ratio above 8% based on Basel I in accordance with the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies.

The details of the Group's consolidated BIS ratio as of December 31, 2012 and 2011, are as follows:

	(in millions of Korean won)	
	2012	2011
Equity Capital:	₩ 26,907,004	₩ 25,062,681
Tier I Capital	20,595,885	19,495,671
Tier II Capital	6,311,119	5,567,010
Risk-weighted assets:	193,510,143	192,812,547
Credit risk	187,465,230	187,851,397
Market risk	6,044,913	4,961,150
Capital adequacy ratio (%):	13.90	13.00
Tier I Capital (%)	10.64	10.11
Tier II Capital (%)	3.26	2.89

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into the following business segments. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

Banking business	Corporate Banking	The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
	Retail Banking	The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
	Other Banking services	The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.
Credit Card business		The activities within this segment include credit sale, cash service, card loan and other supporting activities.
Investment & Securities business		The activities within this segment include investment banking and brokerage services and other supporting activities.
Life Insurance business		The activities within this segment include life insurance and other supporting activities.

Financial information by business segment for the year ended December 31, 2012, follows:

(in millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Operating revenues from external customers	₩ 1,952,464	₩ 3,041,135	₩ 1,315,417	₩ 6,309,016	₩ 1,286,719	₩ 152,461	₩ 131,299	₩ 24,992	₩ -	₩ 7,904,487
Segment operating revenues (expenses)	2,289	(70,422)	280,343	212,210	(238,094)	5,968	(62,886)	163,555	(80,753)	-
	₩ 1,954,753	₩ 2,970,713	₩ 1,595,760	₩ 6,521,226	₩ 1,048,625	₩ 158,429	₩ 68,413	₩ 188,547	₩ (80,753)	₩ 7,904,487
Net interest income	2,593,646	2,524,163	777,589	5,895,398	974,419	18,950	192,011	38,282	(3,147)	7,115,913
Interest income	5,190,403	5,681,723	1,606,306	12,478,432	1,387,987	38,222	191,907	85,407	(26,130)	14,155,825
Interest expense	(2,596,757)	(3,157,560)	(828,717)	(6,583,034)	(413,568)	(19,272)	104	(47,125)	22,983	(7,039,912)
Net fee and commission income	232,981	696,311	344,704	1,273,996	157,788	85,454	211	102,407	(27,215)	1,592,641
Fee and commission income	274,794	760,802	422,104	1,457,700	1,427,271	96,247	211	115,905	(318,666)	2,778,668
Fee and commission expense	(41,813)	(64,491)	(77,400)	(183,704)	(1,269,483)	(10,793)	-	(13,498)	291,451	(1,186,027)
Net gains(losses) on financial assets/liabilities at fair value through profit or loss	(501)	(15,102)	612,349	596,746	-	39,137	7,703	7,610	7	651,203

(in millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Net other operating income(loss)	(871,373)	(234,659)	(138,882)	(1,244,914)	(83,582)	14,888	(131,512)	40,248	(50,398)	(1,455,270)
General and administrative expenses	(792,533)	(1,672,741)	(840,440)	(3,305,714)	(347,119)	(128,091)	(45,214)	(134,865)	75,718	(3,885,285)
Operating profit before provision for credit losses	1,162,220	1,297,972	755,320	3,215,512	701,506	30,338	23,199	53,682	(5,035)	4,019,202
Provision(reversal) for credit losses	(852,964)	(392,354)	(49,396)	(1,294,714)	(314,844)	(3,624)	(479)	5,841	16	(1,607,804)
Net operating profit	309,256	905,618	705,924	1,920,798	386,662	26,714	22,720	59,523	(5,019)	2,411,398
Share of profit(loss) of associates	-	-	(5,712)	(5,712)	-	176	-	1,386	(9,386)	(13,536)
Net other non-operating revenue(expense)	5,522	-	(69,768)	(64,246)	(4,334)	(2,889)	(856)	(62,307)	(1,902)	(136,534)
Segment profits(loss) before income tax	314,778	905,618	630,444	1,850,840	382,328	24,001	21,864	(1,398)	(16,307)	2,261,328
Income tax expense	(76,854)	(219,173)	(138,671)	(434,698)	(90,736)	(6,349)	(5,258)	(14,384)	2,085	(549,340)
Profit(loss) for the year	237,924	686,445	491,773	1,416,142	291,592	17,652	16,606	(15,782)	(14,222)	1,711,988
Profit(loss) attributable to Shareholders of the parent company	237,924	686,445	491,404	1,415,773	291,592	17,652	16,606	(15,782)	(22,928)	1,702,913
Profit attributable to Non- controlling interests	-	-	369	369	-	-	-	-	8,706	9,075
Total assets ¹	93,143,686	100,591,642	64,013,369	257,748,697	14,046,174	3,353,745	5,987,928	19,987,537	(19,117,503)	282,006,578
Total liabilities ¹	84,489,905	115,521,270	37,779,967	237,791,142	10,966,541	2,808,001	5,594,727	1,288,348	(1,146,221)	257,302,538

¹ Amount before intra-group transaction adjustment.Financial information by business segment for the year ended December 31, 2011², follows:

(in millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Operating revenues from external customers	₩ 2,287,249	₩ 3,266,610	₩ 1,634,596	₩ 7,188,455	₩ 1,401,669	₩ 162,835	₩ 114,616	₩ (24,455)	₩ -	₩ 8,843,120
Segment operating revenues (expenses)	(42,943)	(54,409)	219,044	121,692	(276,340)	(2,323)	(47,350)	187,416	16,905	-
	₩ 2,244,306	₩ 3,212,201	₩ 1,853,640	₩ 7,310,147	₩ 1,125,329	₩ 160,512	₩ 67,266	₩ 162,961	₩ 16,905	₩ 8,843,120

(in millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Net interest income	2,559,260	2,779,467	674,268	6,012,995	901,487	13,256	161,717	17,220	(2,163)	7,104,512
Interest income	5,107,821	5,723,486	1,528,099	12,359,406	1,381,384	42,221	161,793	65,679	(54,226)	13,956,257
Interest expense	(2,548,561)	(2,944,019)	(853,831)	(6,346,411)	(479,897)	(28,965)	(76)	(48,459)	52,063	(6,851,745)
Net fee and commission income	242,581	634,916	503,186	1,380,683	241,571	83,130	45	96,071	(6,750)	1,794,750
Fee and commission income	277,579	736,098	545,509	1,559,186	1,351,103	99,803	45	109,296	(289,679)	2,829,754
Fee and commission expense	(34,998)	(101,182)	(42,323)	(178,503)	(1,109,532)	(16,673)	-	(13,225)	282,929	(1,035,004)
Net gains(losses) on financial assets/liabilities at fair value through profit or loss	(2,205)	(1,832)	993,680	989,643	-	50,209	68	(4,050)	(3)	1,035,867
Net other operating income(loss)	(555,330)	(200,350)	(317,494)	(1,073,174)	(17,729)	13,917	(94,564)	53,720	25,821	(1,092,009)
General and administrative expenses	(728,735)	(1,757,907)	(886,055)	(3,372,697)	(345,765)	(117,925)	(41,556)	(114,568)	60,703	(3,931,808)
Operating profit before provision for credit losses	1,515,571	1,454,294	967,585	3,937,450	779,564	42,587	25,710	48,393	77,608	4,911,312
Provision(reversal) for credit losses	(1,006,656)	(302,261)	17,384	(1,291,533)	(206,566)	(5,919)	(1,241)	(7,765)	46	(1,512,978)
Net operating profit	508,915	1,152,033	984,969	2,645,917	572,998	36,668	24,469	40,628	77,654	3,398,334
Share of profit of associates	-	-	1,352	1,352	-	242	-	2,436	933	4,963
Net other non-operating revenue(expense)	114,011	32,782	(192,701)	(45,908)	(1,748)	(2,579)	(614)	(85,139)	(6,503)	(142,491)
Segment profits(loss) before income tax	622,926	1,184,815	793,620	2,601,361	571,250	34,331	23,855	(42,075)	72,084	3,260,806
Income tax expense	(158,322)	(275,747)	(240,690)	(674,759)	(130,177)	(8,367)	(5,283)	(2,248)	(11,400)	(832,234)
Profit(loss) for the year	464,604	909,068	552,930	1,926,602	441,073	25,964	18,572	(44,323)	60,684	2,428,572
Profit(loss) attributable to Shareholders of the parent company	464,604	909,068	551,588	1,925,260	441,073	25,964	18,572	(44,323)	6,480	2,373,026
Profit attributable to Non-controlling interests	-	-	1,342	1,342	-	-	-	-	54,204	55,546
Total assets ¹	92,399,053	102,545,488	61,567,719	256,512,260	13,349,351	3,336,353	4,515,809	19,499,234	(19,612,190)	277,600,817
Total liabilities ¹	87,160,301	112,167,430	38,116,124	237,443,855	10,567,141	2,812,128	4,161,121	1,363,489	(1,846,712)	254,501,022

¹ Amount before intra-group transaction adjustment.² Operating revenues by business segment for the year ended December 31, 2011, have been restated due to a change of reportable segments.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Banking service	₩	6,309,016	₩	7,188,455
Credit card service		1,286,719		1,401,669
Investment & securities service		152,461		162,835
Life insurance service		131,299		114,616
Other service		24,992		(24,455)
	₩	7,904,487	₩	8,843,120

5.2.2 Geographical information

Geographical operating revenues from external customers for the years ended December 31, 2012 and 2011, and major non-current assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				2011			
	Revenues from external customers		Major non-current assets		Revenues from external customers		Major non-current assets	
Domestic	₩	7,805,562	₩	3,640,701	₩	8,751,005	₩	3,643,750
United States		11,438		35		12,849		145
New Zealand		8,268		35		7,591		60
China		30,800		11,349		25,528		861
Japan		30,810		2,653		31,499		2,103
Argentina		10		-		7		-
Vietnam		1,172		429		65		481
Cambodia		4,151		546		2,929		557
England		12,276		16		11,647		42
Intra-group adjustment		-		57,230		-		58,014
	₩	7,904,487	₩	3,712,994	₩	8,843,120	₩	3,706,013

6. Financial Assets and Financial Liabilities

6.1 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of December 31, 2012, are as follows:

(in millions of Korean won)

	Financial assets at fair value through profit or loss						Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-Maturity financial assets	Derivatives held for hedging	
Financial assets							
Cash and due from financial institutions	₩ -	₩ -	₩ 10,568,350	₩ -	₩ -	₩ -	₩ 10,568,350
Financial assets at fair value through profit or loss	5,947,104	352,090	-	-	-	-	6,299,194
Derivatives	1,841,273	-	-	-	-	183,511	2,024,784
Loans	-	-	212,716,251	-	-	-	212,716,251
Financial investments	-	-	-	24,641,333	12,255,806	-	36,897,139
Other financial assets	-	-	7,554,156	-	-	-	7,554,156
	₩ 7,788,377	₩ 352,090	₩ 230,838,757	₩ 24,641,333	₩ 12,255,806	₩ 183,511	₩ 276,059,874

(in millions of Korean won)

	Financial liabilities at fair value through profit or loss				Total
	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortized cost	Derivatives held for hedging	
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩ 1,381,997	₩ 469,138	₩ -	₩ -	₩ 1,851,135
Derivatives	1,868,287	-	-	200,526	2,068,813
Deposits	-	-	194,403,279	-	194,403,279
Debts	-	-	15,969,522	-	15,969,522
Debentures	-	-	24,131,770	-	24,131,770
Other financial liabilities	-	-	11,591,868	-	11,591,868
	₩ 3,250,284	₩ 469,138	₩ 246,096,439	₩ 200,526	₩ 250,016,387

The carrying amounts of financial assets and liabilities by category as of December 31, 2011, are as follows:

(in millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-Maturity financial assets	Derivatives held for hedging	Total							
	Held for trading	Designated at fair value through profit or loss												
Financial assets														
Cash and due from financial institutions	₩	-	₩	-	₩	-	₩	9,178,125						
Financial assets at fair value through profit or loss		5,617,257		708,847		-		6,326,104						
Derivatives		2,220,314		-		-	228,141	2,448,455						
Loans		-		-		-	212,107,027	212,107,027						
Financial investments		-		-		22,377,024	13,055,158	35,432,182						
Other financial assets		-		-		-	6,409,905	6,409,905						
	₩	7,837,571	₩	708,847	₩	227,695,057	₩	22,377,024	₩	13,055,158	₩	228,141	₩	271,901,798

(in millions of Korean won)

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	Derivatives held for hedging	Total					
	Held for trading	Designated at fair value through profit or loss								
Financial liabilities										
Financial liabilities at fair value through profit or loss	₩	550,873	₩	837,206	₩	-	₩	-	₩	1,388,079
Derivatives		1,905,343		-		-		154,230		2,059,573
Deposits		-		-		190,337,590		-		190,337,590
Debts		-		-		16,823,838		-		16,823,838
Debentures		-		-		27,069,879		-		27,069,879
Other financial liabilities		-		-		9,962,105		-		9,962,105
	₩	2,456,216	₩	837,206	₩	244,193,412	₩	154,230	₩	247,641,064

6.2 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including Discounted Cash Flow (DCF) Model, Imputed Market Value Model, Free Cash Flow to Equity Model, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	Discounted Cash Flow Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate. For those loans with residual maturities of less than three months as of the reporting date and the ones with an interest rate reset period of less than three months, the carrying amount is regarded as representative of fair value.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate. For those deposits with residual maturities of less than three months as of the reporting date and ones with interest rate reset period of less than three months, carrying amount is regarded as representative of fair value.
Debts	Fair value is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate. However, for those debts with residual maturities of less than three months as of the reporting date and ones with an interest rate reset period of less than three months, the carrying amount is regarded as representative of fair value.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

Fair values of financial assets and liabilities measured at amortized cost as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 10,568,350	₩ 10,521,612	₩ 9,178,125	₩ 9,185,763
Loans	212,716,251	213,730,235	212,107,027	212,858,247
Held-to-maturity financial assets	12,255,806	12,837,009	13,055,158	13,562,430
Other financial assets	7,554,156	7,554,157	6,409,905	6,409,905
	₩ 243,094,563	₩ 244,643,013	₩ 240,750,215	₩ 242,016,345
Financial liabilities				
Deposits	₩ 194,403,279	₩ 194,850,278	₩ 190,337,590	₩ 190,560,759
Debts	15,969,522	15,988,246	16,823,838	16,826,152
Debentures	24,131,770	25,623,606	27,069,879	28,636,722
Other financial liabilities	11,591,868	11,591,962	9,962,105	9,983,449
	₩ 246,096,439	₩ 248,054,092	₩ 244,193,412	₩ 246,007,082

Fair value hierarchy

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

Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1. This level includes debt securities, equity instruments and derivatives that have a quoted market price in an active market.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2. This level includes debt securities, certain private equity funds and general over-the-counter derivatives such as swaps, futures and options.

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3. This level includes unlisted equity securities and unlisted private equity funds, complex structured bonds and complex over-the-counter derivatives.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The fair value hierarchy of financial assets and liabilities measured at fair value as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)

	2012							
	Fair value hierarchy			Level 3	Total			
	Level 1	Level 2						
Financial assets								
Financial assets held for trading								
Debt securities	₩	2,621,732	₩	2,430,126	₩	-	₩	5,051,858
Equity securities		428,500		426,907		-		855,407
Others		39,839		-		-		39,839
Financial assets designated at fair value through profit or loss								
Equity securities		-		159,483		-		159,483
Derivative linked securities		-		14,983		177,624		192,607
Derivatives held for trading		2,839		1,791,649		46,785		1,841,273
Derivatives held for hedging		-		180,746		2,765		183,511
Available-for-sale financial assets ¹								
Debt securities		10,351,980		11,300,578		181,984		21,834,542
Equity securities		922,206		78,432		1,806,153		2,806,791
	₩	14,367,096	₩	16,382,904	₩	2,215,311	₩	32,965,311
Financial liabilities								
Financial liabilities held for trading	₩	1,381,997	₩	-	₩	-	₩	1,381,997
Financial liabilities designated at fair value through profit or loss		-		-		469,138		469,138
Derivatives held for trading		2,560		1,817,784		47,943		1,868,287
Derivatives held for hedging		-		191,226		9,300		200,526
	₩	1,384,557	₩	2,009,010	₩	526,381	₩	3,919,948

(in millions of Korean won)

2011								
	Fair value hierarchy			Total				
	Level 1	Level 2	Level 3					
Financial assets								
Financial assets held for trading								
Debt securities	₩	2,829,456	₩	2,347,068	₩	-	₩	5,176,524
Equity securities		265,706		135,576		10,826		412,108
Others		28,625		-		-		28,625
Financial assets designated at fair value through profit or loss								
Equity securities		-		134,160		-		134,160
Derivative linked securities		-		-		574,687		574,687
Derivatives held for trading		158,649		2,020,623		41,042		2,220,314
Derivatives held for hedging		-		215,656		12,485		228,141
Available-for-sale financial assets ¹								
Debt securities		9,209,662		10,344,037		180,832		19,734,531
Equity securities		1,045,235		446,624		1,150,634		2,642,493
	₩	13,537,333	₩	15,643,744	₩	1,970,506	₩	31,151,583
Financial liabilities								
Financial liabilities held for trading	₩	550,873	₩	-	₩	-	₩	550,873
Financial liabilities designated at fair value through profit or loss		-		-		837,206		837,206
Derivatives held for trading		158,261		1,695,235		51,847		1,905,343
Derivatives held for hedging		-		132,135		22,095		154,230
	₩	709,134	₩	1,827,370	₩	911,148	₩	3,447,652

¹ The amounts of equity securities carried at cost in "level 3" which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 150,637 million and ₩ 186,564 million as of December 31, 2012 and 2011, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, probabilities and range of estimated cash flows of the unlisted equity securities which are issued by project financing companies cannot be reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to sell these instruments in the near future.

6.3 Level 3 of the fair value hierarchy disclosure

6.3.1 Changes in Level 3 of the fair value hierarchy

Changes in level 3 of the fair value hierarchy for the year ended December 31, 2012, are as follows:

(in millions of Korean won)

	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss		Net derivatives	
	Financial assets held for trading	Designated at fair value through profit or loss	Available -for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging	
Beginning balance	₩ 10,826	₩ 574,687	₩ 1,331,466	₩ (837,206)	₩ (10,805)	₩ (9,610)	
Total gains or losses							
- Profit or loss	-	120,779	(96,637)	(159,685)	(8,246)	15,935	
- Other comprehensive income	-	-	152,877	-	-	-	
Purchases	-	129,612	120,547	-	28,163	-	
Sales	(10,826)	(647,454)	(70,370)	-	(10,211)	-	
Issues	-	-	-	(673,006)	(6,903)	-	
Settlements	-	-	-	1,200,759	6,844	(12,860)	
Transfers into level 3	-	-	551,755	-	-	-	
Transfers out of level 3	-	-	(1,501)	-	-	-	
Ending balance	₩ -	₩ 177,624	₩ 1,988,137	₩ (469,138)	₩ (1,158)	₩ (6,535)	

Changes in level 3 of the fair value hierarchy for the year ended December 31, 2011, are as follows:

(in millions of Korean won)

	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss		Net derivatives	
	Financial assets held for trading	Designated at fair value through profit or loss	Available -for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging	
Beginning balance	₩ 9,807	₩ 139	₩ 1,523,742	₩ -	₩ (71,453)	₩ (29,410)	
Total gains or losses							
- Profit or loss	1,019	(51,229)	373,980	57,963	52,463	32,420	
- Other comprehensive income	-	-	(140,112)	-	5,749	-	
Purchases	-	636,126	136,582	-	14,733	-	
Sales	-	(10,349)	(554,022)	-	(46)	-	
Issues	-	-	-	(919,411)	(36,214)	-	

(in millions of Korean won)

	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss	Net derivatives	
	Financial assets held for trading	Designated at fair value through profit or loss	Available-for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging
Settlements	-	-	-	24,242	23,963	(12,620)
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	(8,704)	-	-	-
Ending balance	₩ 10,826	₩ 574,687	₩ 1,331,466	₩ (837,206)	₩ (10,805)	₩ (9,610)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year, and total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	
	Net income from financial investments at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the year	₩ (47,152)	₩ (80,702)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period	(18,063)	(83,976)

(in millions of Korean won)

	2011	
	Net income from financial investments at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the year	₩ 60,227	₩ 406,389
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period	18,295	(30,100)

Sensitivity analysis of fair value of financial instruments classified as level 3

Sensitivity analysis of financial instruments is performed, to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. Amongst level 3 financial instruments subject to sensitivity analysis are interest rate-related derivatives and equity-related derivatives whose fair value changes are recognized in profit and loss as well as unlisted equity securities and private equity funds whose fair value changes are recognized in profit and loss or other comprehensive income and loss.

Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(in millions of Korean won)

	Recognition in profit and loss			
		Favorable changes		Unfavorable changes
Financial liabilities				
Financial assets designated at fair value through profit or loss	₩	953	₩	(1,888)
Derivative linked securities ¹		953		(1,888)
Derivatives held for trading ²		8,047		(9,451)
Derivatives held for hedging ²		197		(202)
Available-for-sale financial assets		405,057		(175,785)
Debt securities ³		2,773		(2,731)
Equity securities ⁴		402,284		(173,054)
	₩	414,254	₩	(187,326)
Financial liabilities				
Financial liabilities designated at fair value through profit or loss ¹	₩	13,843	₩	(7,752)
Derivatives held for trading ²		3,934		(4,321)
Derivatives held for hedging ²		176		(169)
	₩	17,953	₩	(12,242)

¹ For financial assets designated at fair value through profit or loss, the changes in fair-value are calculated by shifting principal unobservable input parameters such as stock price fluctuation range of underlying assets by +/- 10%.

² For equity-related derivatives, the changes in fair-value are calculated by shifting principal unobservable input parameters such as correlation between the stock price and volatility by +/- 10%. For interest rate-related derivatives, coefficient of correlation between long-term and short-term interest rates or the volatilities of the underlying assets are shifted by +/- 10% to calculate the fair value changes.

³ For debt securities, the changes in fair-value are calculated by shifting principal unobservable input parameters such as discount rate by +/- 1%.

⁴ For equity securities, the changes in fair-value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate. Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real-estates, the changes in fair-value are calculated by shifting correlation between discount rate of cash flows from rent(-1%~1%) and volatilities of real estate selling price(-10%~+10%).

6.3.2 Day one gain or loss

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

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference, are as follows:

(in millions of Korean won)

	2012		2011	
Balance at the beginning of the year (A)	₩	4,082	₩	2,168
New transactions (B)		23,677		5,878
Amounts recognized in profit or loss during the year (C= a+b)		(19,107)		(3,964)
a. Amortization		(7,091)		(1,314)
b. Settlement		(12,016)		(2,650)
Balance at the end of the year (A+B+C)	₩	8,652	₩	4,082

6.4 Transfer of financial assets

The Group transferred loans and other financial assets to SPEs which were derecognized in their entirety. The maximum exposure to loss (carrying amount) from its continuing involvement in the derecognized financial assets is as follows :

(in millions of Korean won)

	Type of continuing involvement	Carrying amount of continuing involvement in statement of financial position	
KR ABS Ltd. ¹	Senior debt	₩	21,288
	Mezzanine/subordinate debt		43,143
		₩	64,431

¹ Recognized net loss from transferring loans to the SPEs amounts to ₩ 22,734 million.

7. Due from financial institutions

The details of due from financial institutions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		Financial Institutions	Interest rate(%)		2012		2011	
	Due from Bank of Korea	Bank of Korea	0.00~2.77	₩	3,095,038	₩	3,757,108	
Due from financial institutions in Korean won	Due from banking institutions	Busan Bank and others	0.00~7.15		552,672		371,225	
	Due from others	Samsung Securities Co., Ltd. and others	0.00~3.62		3,177,053		1,888,260	
					6,824,763		6,016,593	
	Due from banks in foreign currencies	Bank of Korea and others	0.00~0.15		385,798		321,689	
Due from financial institutions in foreign currencies	Time deposits in foreign currencies	China Guangfa Bank Panjiayuan Branch and others	0.15~5.69		448,349		187,294	
	Due from others	Sumitomo Mitsui Banking Corporation and others	-		59,330		30,451	
					893,477		539,434	
					₩	7,718,240	₩	6,556,027

Due from financial institutions, classified by type of financial institution as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	In Korean won		In foreign currencies		Total	
Bank of Korea	₩	3,095,038	₩	120,143	₩	3,215,181
Other banking institutions		552,672		739,100		1,291,772
Other financial institutions		3,177,053		34,234		3,211,287
	₩	6,824,763	₩	893,477	₩	7,718,240

(in millions of Korean won)

	2011		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 3,757,108	₩ 185,050	₩ 3,942,158
Other banking institutions	371,225	337,784	709,009
Other financial institutions	1,888,260	16,600	1,904,860
	₩ 6,016,593	₩ 539,434	₩ 6,556,027

Restricted due from financial institutions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Financial Institutions	2012		2011		Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 3,095,038	₩ 3,757,108		Bank of Korea Act
	Due from Banking institution	Hana Bank and others	248,603	88,827		Agreement for allocation of deposit
	Due from others	The Korea Exchange and others	152,235	69,437		Market entry deposit and others
			₩ 3,495,876	₩ 3,915,372		
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	₩ 128,812	₩ 189,859		Bank of Korea Act and others
	Time deposit in foreign currencies	Sumitomo Mitsui BKG CO New York and others	6,962	48,810		Bank Act of the State of New York
	Due from others	Ong First Tradition PTE and others	11,063	17,172		Derivatives margin account and others
			₩ 146,837	₩ 255,841		
			₩ 3,642,713	₩ 4,171,213		

8. Assets pledged as collaterals

The details of assets pledged as collaterals as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Assets pledged	Pledgee	2012		Reason of pledge
		Carrying amount	Collateralized amount	
Due from financial institutions	Woori Bank and others	₩ 89,000	₩ 89,000	Borrowings from Bank and others
Financial assets held for trading	Korea Securities Depository and others	321,454	306,194	Bonds sold under repurchase agreements
	Korea Securities Depository and others	1,440,316	1,338,186	Securities lending transactions
	Samsung Futures Inc. and others	80,583	72,801	Derivatives transactions
	Others	18,917	17,945	Others
		1,861,270	1,735,126	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,447	3,213	Derivatives transactions
	Others	400	400	Others
		3,847	3,613	
Held-to-maturity financial assets	Korea Securities Depository and others	3,602,681	3,602,000	Bonds sold under repurchase agreements
	Bank of Korea	965,072	960,000	Borrowings from Bank of Korea
	Bank of Korea	781,389	776,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	266,113	266,000	Derivatives transactions
	Others	1,249,441	1,220,500	Others
		6,864,696	6,825,300	
Mortgage loans	Others	1,058,470	1,054,834	Covered Bond
		₩ 9,877,283	₩ 9,707,873	

(in millions of Korean won)

		2011			
Assets pledged	Pledgee	Carrying amount	Collateralized amount	Reason of pledge	
Due from financial institutions	Woori Bank and others	₩ 57,500	₩ 57,500	Borrowings from Bank and others	
Financial assets held for trading	Korea Securities Depository and others	183,280	178,171	Bonds sold under repurchase agreements	
	Korea Securities Depository and others	647,363	602,299	Securities lending transactions	
	Samsung Futures Inc. and others	105,457	95,956	Derivatives transactions	
	Others	8,803	8,395	Others	
		944,903	884,821		
Available-for-sale financial assets	Korea Securities Depository and others	29,393	29,986	Bonds sold under repurchase agreements	
	Samsung Futures Inc. and others	5,976	5,766	Derivatives transactions	
		35,369	35,752		
Held-to-maturity financial assets	Korea Securities Depository and others	1,678,218	1,678,000	Bonds sold under repurchase agreements	
	Bank of Korea	1,063,228	1,070,000	Borrowings from Bank of Korea	
	Bank of Korea	938,200	934,800	Settlement risk of Bank of Korea	
	Samsung Futures Inc. and others	661,666	666,807	Derivatives transactions	
	Others	1,224,998	1,200,300	Others	
		5,566,310	5,549,907		
Mortgage loans	Others	1,287,527	1,282,791	Covered Bond	
		₩ 7,891,609	₩ 7,810,771		

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		2012			
		Fair value of collateral held	Fair value of collateral sold or repledged	Total	
Securities		₩ 3,609,354	₩ -	₩	3,609,354
		₩ 3,609,354	₩ -	₩	3,609,354

(in millions of Korean won)

	2011				
	Fair value of collateral held		Fair value of collateral sold or repledged		Total
Securities	₩	1,881,523	₩	-	₩ 1,881,523
	₩	1,881,523	₩	-	₩ 1,881,523

Loaned securities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011		Borrower
Government and public bonds	₩	228,912	₩	170,279	Korea Securities Finance Corp., Korea Securities Depository and others
Stocks		43,543		26,766	Korea Securities Depository and others
	₩	272,455	₩	197,045	

Securities borrowed as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011		Borrower
Government and public bonds	₩	31,088	₩	18,422	Korea Securities Finance Corp., Korea Securities Depository and others
Stocks		47,996		52,075	Korea Securities Finance Corp., Korea Securities Depository and others
	₩	79,084	₩	70,497	

9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won;
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks,
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values and in cash flows due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of December 31, 2012, are as follows:

(in millions of Korean won)

	Notional amount		Assets		Liabilities	
Interest rate						
Futures ¹	₩	1,593,818	₩	-	₩	-
Swaps		145,046,846		839,948		948,697
Options		10,715,347		79,942		78,149
		157,356,011		919,890		1,026,846
Currency						
Forwards		17,280,288		264,579		342,576
Futures ¹		602,051		974		7
Swaps		13,487,378		576,857		427,227
Options		334,912		3,215		2,638
		31,704,629		845,625		772,448
Stock and index						
Futures ¹		174,997		-		-
Swaps		355,995		18,056		6,879
Options		1,938,069		56,376		60,952
		2,469,061		74,432		67,831
Commodity						
Futures ¹		3,856		88		2
		3,856		88		2
Other						
		60,000		1,238		1,160
	₩	191,593,557	₩	1,841,273	₩	1,868,287

The details of derivative financial instruments for trading as of December 31, 2011, are as follows:

(in millions of Korean won)

	Notional amount		Assets		Liabilities	
Interest rate						
Futures ¹	₩	1,924,542	₩	-	₩	-
Swaps		110,920,785		519,217		653,983
Options		11,997,483		69,952		69,979
		124,842,810		589,169		723,962

(in millions of Korean won)

	Notional amount	Assets	Liabilities
Currency			
Forwards	31,316,223	916,479	405,570
Futures ¹	212,052	-	125
Swaps	16,341,586	509,085	551,918
Options	348,643	3,151	1,401
	48,218,504	1,428,715	959,014
Stock and index			
Futures ¹	85,419	-	-
Swaps	97,942	1,416	6,385
Options	1,049,752	198,295	213,668
	1,233,113	199,711	220,053
Commodity			
Futures ¹	3,351	279	-
	3,351	279	-
Other	60,000	2,440	2,314
	₩ 174,357,778	₩ 2,220,314	₩ 1,905,343

¹ A gain or loss from daily marking to market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2012, are as follows:

(in millions of Korean won)

	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 1,921,251	₩ 180,719	₩ 6,642
Currency			
Swaps	1,071,100	-	183,929
Other	140,000	2,348	2,658
	₩ 3,132,351	₩ 183,067	₩ 193,229

The details of derivatives designated as fair value hedging instruments as of December 31, 2011, are as follows:

(in millions of Korean won)

	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	4,343,294	₩	206,560	₩	12,564
Currency						
Swaps		1,153,300		-		127,780
Other		190,000		-		12,800
	₩	5,686,594	₩	206,560	₩	153,144

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Gains(losses) on hedging instruments	₩	(14,654)	₩	108,507
Gains(losses) on the hedged item attributable to the hedged risk		37,641		(84,914)
	₩	22,987	₩	23,593

Cash flow hedge

The details of derivatives designated as cash flow hedging instruments as of December 31, 2012, are as follows:

(in millions of Korean won)

	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	1,065,000	₩	444	₩	7,013
Currency						
Swaps		321,330		-		284
	₩	1,386,330	₩	444	₩	7,297

The details of derivatives designated as cash flow hedging instruments as of December 31, 2011, are as follows:

(in millions of Korean won)

	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	350,000	₩	-	₩	1,086
Currency						
Swaps		345,990		21,581		-
	₩	695,990	₩	21,581	₩	1,086

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Gains(losses) on hedging instruments	₩	(27,006)	₩	21,631
Gains(losses) on the hedged item attributable to the hedged risk		(26,838)		21,631
Ineffectiveness recognized in profit or loss	₩	(168)	₩	-

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Amount recognized in other comprehensive income	₩	(26,838)	₩	21,631
Amount reclassified from equity to profit or loss		25,000		(23,193)
Tax effect		1,025		241
	₩	(813)	₩	(1,321)

10. Loans

Loans as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Loans	₩	215,558,351	₩	215,155,061
Deferred loan origination fees and costs		426,336		399,871
Less: Allowances for loan losses		(3,268,436)		(3,447,905)
Carrying amount	₩	212,716,251	₩	212,107,027

Loans to banks as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Loans	₩	4,397,742	₩	3,987,658
Less: Allowances for loan losses		(9)		(334)
Carrying amount	₩	4,397,733	₩	3,987,324

Loans to customers other than banks as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)

	2012			
	Retail	Corporate	Credit card	Total
Loans in Korean won	₩ 102,066,790	₩ 82,892,571	₩ -	₩ 184,959,361
Loans in foreign currencies	71,974	3,466,302	-	3,538,276
Domestic import usance bills	-	3,595,143	-	3,595,143
Off-shore funding loans	-	753,885	-	753,885
Call loans	-	1,193,334	-	1,193,334
Bills bought in Korean won	-	30,343	-	30,343
Bills bought in foreign currencies	-	2,522,110	-	2,522,110
Guarantee payments under payment guarantee	-	45,154	-	45,154
Credit card receivables in Korean won	-	-	11,871,313	11,871,313
Credit card receivables in foreign currencies	-	-	2,538	2,538
Bonds purchased under repurchase agreements	-	1,251,000	-	1,251,000
Privately placed bonds	-	603,667	-	603,667
Factored receivables	1,198,105	22,716	-	1,220,821
	103,336,869	96,376,225	11,873,851	211,586,945
Proportion (%)	48.84	45.55	5.61	100.00
Allowances	(687,833)	(2,251,104)	(329,490)	(3,268,427)
	₩ 102,649,036	₩ 94,125,121	₩ 11,544,361	₩ 208,318,518

(in millions of Korean won)

	2011			
	Retail	Corporate	Credit card	Total
Loans in Korean won	₩ 103,855,183	₩ 80,355,474	₩ -	₩ 184,210,657
Loans in foreign currencies	70,022	4,071,464	-	4,141,486
Domestic import usance bills	-	4,277,672	-	4,277,672
Off-shore funding loans	-	893,289	-	893,289
Call loans	-	1,092,895	-	1,092,895
Bills bought in Korean won	-	104,487	-	104,487
Bills bought in foreign currencies	-	2,723,066	-	2,723,066
Guarantee payments under payment guarantee	-	56,511	-	56,511
Credit card receivables in Korean won	-	-	12,420,308	12,420,308
Credit card receivables in foreign currencies	-	-	959	959

(in millions of Korean won)

	2011			
	Retail	Corporate	Credit card	Total
Bonds purchased under repurchase agreements	-	829,500	-	829,500
Privately placed bonds	-	816,444	-	816,444
	103,925,205	95,220,802	12,421,267	211,567,274
Proportion (%)	49.12	45.01	5.87	100.00
Allowances	(635,476)	(2,461,713)	(350,382)	(3,447,571)
	₩ 103,289,729	₩ 92,759,089	₩ 12,070,885	₩ 208,119,703

The changes in deferred loan origination fees and costs for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
	Beginning	Increase	Decrease	Others	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 448,122	₩ 321,090	₩ 266,700	₩ -	₩ 502,512
Other origination costs	201	430	287	-	344
	448,323	321,520	266,987	-	502,856
Deferred loan origination fees					
Loans in Korean won	43,242	53,166	26,414	-	69,994
Credit card	106	-	106	-	-
Other origination fees	5,104	3,245	1,803	(20)	6,526
	48,452	56,411	28,323	(20)	76,520
	₩ 399,871	₩ 265,109	₩ 238,664	₩ 20	₩ 426,336

(in millions of Korean won)

	2011				
	Beginning	Increase	Decrease	Others	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 365,774	₩ 254,099	₩ 171,751	₩ -	₩ 448,122
Other origination costs	-	263	62	-	201
	365,774	254,362	171,813	-	448,323

(in millions of Korean won)

	2011				
	Beginning	Increase	Decrease	Others	Ending
Deferred loan origination fees					
Loans in Korean won	46,245	17,723	20,726	-	43,242
Credit card	2,438	-	2,332	-	106
Other origination fees	5,379	2,211	2,487	1	5,104
	54,062	19,934	25,545	1	48,452
	₩ 311,712	₩ 234,428	₩ 146,268	₩ (1)	₩ 399,871

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Retail	Corporate	Credit card	Total
Beginning	₩ 635,476	₩ 2,462,047	₩ 350,382	₩ 3,447,905
Written-off	(452,639)	(1,203,832)	(540,664)	(2,197,135)
Recoveries from written-off loans	102,698	161,333	185,027	449,058
Sale	(6,082)	(98,865)	-	(104,947)
Provision ¹	402,373	914,551	336,356	1,653,280
Other changes	6,007	15,879	(1,611)	20,275
Ending	₩ 687,833	₩ 2,251,113	₩ 329,490	₩ 3,268,436

(in millions of Korean won)

	2011			
	Retail	Corporate	Credit card	Total
Beginning	₩ 520,842	₩ 2,907,747	₩ 327,587	₩ 3,756,176
Written-off	(286,895)	(1,481,877)	(412,642)	(2,181,414)
Recoveries from written-off loans	119,925	166,696	203,658	490,279
Sale	(17,947)	(221,809)	(94)	(239,850)
Provision ¹	295,871	1,115,831	232,932	1,644,634
Other changes	3,680	(24,541)	(1,059)	(21,920)
Ending	₩ 635,476	₩ 2,462,047	₩ 350,382	₩ 3,447,905

¹ Provision for credit losses in statements of comprehensive income also include reversal for unused commitments and guarantees(Note 23), reversal for financial guarantees contracts(Note 23), and provision for other financial assets(Note 18).

The amounts of written-off loans, over which the Group still has a right to claim against the borrowers and guarantors, are ₩ 15,018,335 million and ₩ 14,118,853 million, as of December 31, 2012 and 2011, respectively.

The coverage ratio of allowances for loan losses as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)

	2012		2011	
Loans	₩	215,984,687	₩	215,554,932
Allowances for loan losses		3,268,436		3,447,905
Ratio (%)		1.51		1.60

12. Financial assets at fair value through profit or loss and Financial investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Financial assets held for trading				
Debt securities:				
Government and public bonds	₩	1,671,956	₩	1,507,503
Financial bonds		2,498,711		2,837,144
Corporate bonds		748,706		586,416
Asset-backed securities		20,004		134,943
Others		112,481		110,518
Equity securities:				
Stocks		197,458		187,181
Beneficiary certificates		657,949		224,927
Others		39,839		28,625
		5,947,104		5,617,257
Financial assets designated at fair value through profit or loss				
Equity securities:				
Beneficiary certificates		159,483		134,160
Derivative linked securities		192,607		574,687
		352,090		708,847
Total financial assets at fair value through profit or loss	₩	6,299,194	₩	6,326,104

(in millions of Korean won)

	2012	2011
Available-for-sale financial assets		
Debt securities:		
Government and public bonds	₩ 6,256,380	₩ 5,988,659
Financial bonds	7,476,233	6,432,081
Corporate bonds	6,526,465	5,375,387
Asset-backed securities	1,399,015	1,757,482
Others	176,449	180,922
Equity securities:		
Stocks	1,927,841	1,911,108
Equity investments and others	109,833	87,917
Beneficiary certificates	769,117	643,468
	24,641,333	22,377,024
Held-to-maturity financial assets		
Debts securities:		
Government and public bonds	4,449,243	5,435,754
Financial bonds	1,315,417	1,125,326
Corporate bonds	6,212,850	6,155,467
Asset-backed securities	278,296	338,611
	12,255,806	13,055,158
Total financial investments	₩ 36,897,139	₩ 35,432,182

The impairment losses and the reversal of impairment losses in financial investments for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (281,053)	₩ -	₩ (281,053)
Held-to-maturity financial assets	(154)	-	(154)
	₩ (281,207)	₩ -	₩ (281,207)
(in millions of Korean won)			
	2011		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (51,072)	₩ -	₩ (51,072)
Held-to-maturity financial assets	(150)	117	(33)
	₩ (51,222)	₩ 117	₩ (51,105)

13. Investments in associates

Investments in associates as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Associates						
Balhae Infrastructure Fund ¹	12.61	121,817	125,004	125,004	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	3,790	3,790	Credit Information	Korea
UAMCO., Ltd. ¹	17.50	85,050	120,916	139,760	Other finance	Korea
JSC Bank Center Credit						
Ordinary share ^{2,4}	29.56	954,104	250,692	281,889	Banking	Kazakhstan
Preference share ²	93.15					
KoFC KBIC Frontier Champ 2010-5(PEF)	50.00	32,150	28,761	25,539	Investment finance	Korea
KB Global Star Game & Apps SPAC ^{1,4}	0.23	20	48	48	SPAC	Korea
Semiland Co., Ltd.	21.32	1,470	2,513	2,513	Manufacture	Korea
Serit Platform Co., Ltd.	21.72	1,500	1,517	1,517	Manufacture of communication equipment	Korea
Sehwa Electronics Co., Ltd.	20.95	3,508	2,955	2,955	Manufacture of electronic components	Korea
Testian Co., Ltd. ³	47.09	1,018	1,041	1,041	Manufacture of semiconductor equipment	Korea
DS Plant Co., Ltd. ³	-	-	-	-	Manufacture of machine	Korea
KT Wibro infrastructure	40.34	100,000	105,955	105,955	Manufacture of electronic components	Korea
Joam Housing Development Co., Ltd. ¹	15.00	8	(371)	-	Housing	Korea
United PF 1 st Recovery Private Equity Fund ¹	17.72	191,617	201,182	195,425	Other finance	Korea
CH Engineering Co., Ltd. ⁵	41.73	-	107	-	Architectural design and Service	Korea
Evalley Co., Ltd. ⁵	46.24	-	-	-	Software advisory, development, and supply	Korea
Shinla Construction Co., Ltd. ⁵	20.24	-	-	-	Specialty construction	Korea

(in millions of Korean won)

2012						
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
PyungJeon Industries Co.,LTD. ⁵	15.65	-	-	-	Specialty construction	Korea
Kores Co., Ltd. ⁶	16.01	634	1,384	1,384	Manufacture of automobile parts	Korea
KB GwS Private Securities Investment Trust	26.74	113,880	124,410	120,939	Security investment trust management	Korea
Incheon Bridge Co., Ltd.	14.99	24,677	1,630	1,630	Operation of Highways and Related facilities	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,311	19,898	Security investment trust management	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	25.00	6,250	5,606	4,983	Investment finance	Korea
Ilsan Elecom(Shenyang) Co., Ltd.	100.00	2,140	(1,212)	-	Manufacture of electronic components	China
Qingdao Danam Electronics Co., Ltd.	100.00	692	935	935	Manufacture of electronic components	China
		₩ 1,665,035	₩ 997,174	₩ 1,035,205		

(in millions of Korean won)

2011						
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Associates						
Balhae Infrastructure Fund ¹	12.61	₩ 125,597	₩ 128,778	₩ 128,778	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	3,766	3,766	Credit Information	Korea
UAMCO., Ltd. ¹	17.50	85,050	103,617	109,531	Other finance	Korea
JSC Bank Center Credit Ordinary share ^{2,4}	29.56	954,104	271,941	365,059	Banking	Kazakhstan
Preference share ²	93.15					
KoFC KBIC Frontier Champ 2010-5(PEF)	50.00	28,850	28,840	28,831	Investment finance	Korea
KB Global Star Game & Apps SPAC ^{1,4}	0.23	20	48	48	SPAC	Korea
Semiland Co., Ltd.	21.32	1,470	2,247	2,247	Manufacture	Korea

(in millions of Korean won)

2011						
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Serit Platform Co., Ltd.	21.72	1,500	1,451	1,451	Manufacture of communication equipment	Korea
Sehwa Electronics Co., Ltd.	20.95	3,508	3,454	3,454	Manufacture of electronic components	Korea
Testian Co., Ltd. ³	19.90	820	789	789	Manufacture of semiconductor equipment	Korea
DS Plant Co., Ltd. ³	-	-	-	-	Manufacture of machine	Korea
KT Wibro infrastructure	40.34	100,000	104,049	104,049	Manufacture of electronic components	Korea
Joam Housing Development Co., Ltd. ¹	15.00	8	(566)	-	Housing	Korea
United PF 1 st Recovery Private Equity Fund ¹	18.50	148,000	149,099	143,437	Other finance	Korea
Ilssan Elecom(Shenyang) Co., Ltd.	100.00	2,140	(1,270)	-	Manufacture of electronic components	China
Qingdao Danam Electronics Co., Ltd.	100.00	692	692	692	Manufacture of electronic components	China
		₩ 1,456,259	₩ 796,935	₩ 892,132		

¹ As of December 31, 2012 and 2011, the Group is represented in the governing body of Balhae Infrastructure Fund, Korea Credit Bureau Co., Ltd., UAMCO., Ltd., KB Global Star Game & Apps SPAC, Joam Housing Development Co., Ltd., United PF 1st Recovery Private Equity Fund and Incheon Bridge Co., Ltd., and has business relationships with those associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

² The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank CenterCredit.

³ The Group's ownership in Testian Co., Ltd. is 48.41% and 27.39% as of December 31, 2012 and 2011, respectively, when the potential voting rights from redeemable convertible preference shares and convertible bond held by the Group are taken into account. Also, The Group's ownership in DS Plant Co., Ltd. is 21.05% and 21.05%, when the potential voting rights from convertible bond held by the Group are taken into account as of December 31, 2012 and 2011, respectively.

⁴ Fair value of ordinary shares of JSC Bank CenterCredit, reflecting the published market price, as of December 31, 2012 and 2011, are ₩ 65,821 million and ₩ 89,669 million, respectively, and fair value of shares of KB Global Star Game & Apps SPAC, reflecting the published market price, as of December 31, 2012 and 2011, are ₩ 49 million and ₩ 47 million, respectively.

⁵ Shares of CH Engineering Co., Ltd., Evalley Co., Ltd., Shinla Construction Co., Ltd. and PyungJeon Industries Co., Ltd. acquired through debt-equity swap, are reclassified as investments in associates due to termination of rehabilitation procedures.

⁶ As corporate restructuring is in progress, the Group has significant influence through participation in creditors' consultative council.

Summarized financial information on associates:

(in millions of Korean won)

	2012					
	Total assets	Total liabilities	Share capital	Equity	Operating income	Profit (loss)
Associates						
Balhae Infrastructure Fund	₩ 993,838	₩ 2,138	₩ 993,030	₩ 991,700	₩ 67,825	₩ 61,514
Korea Credit Bureau Co., Ltd.	55,944	13,834	10,000	42,110	47,660	5,019
UAMCO., Ltd.	4,906,010	4,215,061	2,430	690,949	599,570	95,828
JSC Bank CenterCredit	7,722,114	7,124,299	546,794	597,815	269,586	3,795
KoFC KBIC Frontier Champ 2010-5(PEF)	57,779	257	64,300	57,522	1,870	(6,635)
KB Global Star Game & Apps SPAC	22,108	1,310	862	20,798	-	303
Semiland Co., Ltd.	12,472	6,901	985	5,571	10,552	774
Serit Platform Co., Ltd.	8,134	5,585	1,000	2,549	9,998	304
Sehwa Electronics Co., Ltd.	23,255	9,744	1,050	13,511	14,059	2,674
Testian Co., Ltd.	2,771	1,899	1,030	872	707	80
DS Plant Co., Ltd.	10,253	7,530	600	2,723	10,190	(194)
KT Wibro infrastructure	253,906	30	24,792	253,876	2,138	1,906
Joam Housing Development Co., Ltd.	117,159	119,632	50	(2,473)	36,074	1,345
United PF 1st Recovery Private Equity Fund	1,153,268	17,886	1,081,400	1,135,382	98,873	48,040
CH Engineering Co., Ltd.	1,088	833	158	255	714	(42)
Kores Co., Ltd.	75,750	67,105	11,099	8,645	72,622	190
KB GwS Private Securities Investment Trust	465,690	503	425,814	465,187	39,881	39,373
Incheon Bridge Co., Ltd.	765,522	754,646	164,621	10,876	68,711	(29,451)
KB Star office Private real estate Investment Trust No.1	217,732	121,256	95,000	96,476	2,865	1,476
KoFC POSCO HANHWA KB shared growth Private Equity Fund	23,337	913	25,000	22,424	106	(1,900)
IlssanElecom (Shenyang) Co., Ltd.	1,122	2,334	1,698	(1,212)	4,177	(34)
Qingdao Danam Electronics Co., Ltd.	1,676	740	4,733	936	3,388	(269)

(in millions of Korean won)

	2011					
	Total assets	Total liabilities	Share capital	Equity	Operating income	Profit (loss)
Associates						
Balhae Infrastructure Fund	₩ 1,023,825	₩ 2,187	₩ 971,835	₩ 1,021,638	₩ 63,530	₩ 55,069
Korea Credit Bureau Co., Ltd.	51,484	9,651	10,000	41,833	40,535	6,357
UAMCO., Ltd.	3,738,326	3,146,227	2,430	592,099	468,220	106,274
JSC Bank CenterCredit	8,392,599	7,744,111	546,794	648,488	352,383	10,627
KoFC KBIC Frontier Champ 2010-5(PEF)	58,015	334	57,700	57,681	2,210	1,065
KB Global Star Game & Apps SPAC	21,755	1,260	862	20,495	-	173
Semiland Co., Ltd.	11,074	6,080	985	4,994	5,996	387
Serit Platform Co., Ltd.	5,985	3,590	1,000	2,395	4,617	(203)
Sehwa Electronics Co., Ltd.	27,378	11,487	1,050	15,891	13,812	43
Testian Co., Ltd.	2,442	1,651	1,030	791	426	62
DS Plant Co., Ltd.	10,286	7,590	600	2,696	12,518	32
KT Wibro infrastructure	277,933	25,963	24,792	251,970	1,719	2,310
Joam Housing Development Co., Ltd.	85,714	89,485	50	(3,771)	18,451	(828)
United PF 1st Recovery Private Equity Fund	836,104	30,162	800,000	805,942	58,529	5,942
IlssanElecom (Shenyang) Co., Ltd.	1,094	2,364	1,698	(1,270)	4,360	(205)
Qingdao Danam Electronics Co., Ltd.	1,394	702	4,733	692	-	-

As Evalley Co., Ltd., Shinla Construction Co., Ltd. and PyungJeon Industries Co., Ltd. are capital deficient as of December 31, 2012, reliable financial information is not available. Therefore, financial information of these associates is not included in the summarized financial information.

The changes in investments in associates for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012							
	Beginning	Acquisition and others	Disposal	Dividends	Gains (losses)	Other comprehensive income	Impairment losses	Ending
Associates								
Balhae Infrastructure Fund	₩ 128,778	₩ 2,660	₩ (6,440)	₩ (7,747)	₩ 7,753	₩ -	₩ -	₩ 125,004
Korea Credit Bureau Co., Ltd.	3,766	-	-	-	354	(330)	-	3,790
UAMCO., Ltd.	109,531	-	-	-	30,229	-	-	139,760

(in millions of Korean won)

2012								
	Beginning	Acquisition and others	Disposal	Dividends	Gains (losses)	Other comprehensive income	Impairment losses	Ending
JSC Bank CenterCredit ¹	365,059	-	-	(3)	(6,257)	(43,097)	(33,813)	281,889
KoFC KBIC Frontier Champ 2010-5(PEF)	28,831	3,300	-	-	(5,477)	(1,115)	-	25,539
KB Global Star Game & Apps SPAC	48	-	-	-	-	-	-	48
Semiland Co., Ltd.	2,247	-	-	(10)	276	-	-	2,513
Serit Platform Co., Ltd.	1,451	-	-	-	66	-	-	1,517
Sehwa Electronics Co., Ltd.	3,454	-	-	-	(553)	54	-	2,955
Testian Co., Ltd.	789	198	-	-	54	-	-	1,041
KT Wibro infrastructure	104,049	-	-	-	1,906	-	-	105,955
Joam Housing Development Co., Ltd.	-	-	-	-	-	-	-	-
United PF 1st Recovery Private Equity Fund	143,437	43,617	(402)	-	8,773	-	-	195,425
CH Engineering Co., Ltd. ²	-	-	-	-	-	-	-	-
Evalley Co., Ltd. ²	-	-	-	-	-	-	-	-
Shinla Construction Co., Ltd. ²	-	-	-	-	-	-	-	-
PyungJeon Industries Co.,LTD. ²	-	-	-	-	-	-	-	-
Kores Co., Ltd.	-	634	-	-	273	477	-	1,384
KB GwS Private Securities Investment Trust	-	115,745	(1,865)	-	7,059	-	-	120,939
Incheon Bridge Co., Ltd.	-	24,677	-	-	(22,916)	(131)	-	1,630
KB Star office Private real estate Investment Trust No.1	-	20,000	-	-	(102)	-	-	19,898
KoFC POSCO HANHWA KB shared growth Private Equity Fund	-	6,250	-	-	(934)	(333)	-	4,983
IlssanElecom(Shenyang) Co., Ltd.	-	-	-	-	-	-	-	-
Qingdao Danam Electronics Co., Ltd.	692	-	-	-	175	68	-	935
	₩ 892,132	₩ 217,081	₩ (8,707)	₩ (7,760)	₩ 20,679	₩ (44,407)	₩ (33,813)	₩ 1,035,205

(in millions of Korean won)

2011									
	Beginning	Acquisition	Disposal	Dividends	Gains (losses)	Other comprehensive income	Impairment losses	Others	Ending
Associates									
Balhae Infrastructure Fund	₩ 120,274	₩ 9,063	₩ -	₩ (7,501)	₩ 6,942	₩ -	₩ -	₩ -	₩ 128,778
Korea Credit Bureau Co., Ltd.	3,194	-	-	-	572	-	-	-	3,766
UAMCO., Ltd.	85,622	-	-	-	23,909	-	-	-	109,531
JSC Bank CenterCredit ¹	390,157	-	-	(3)	(4,652)	45	(20,488)	-	365,059
KoFC KBIC Frontier Champ 2010-5(PEF)	10,438	18,350	-	-	554	(511)	-	-	28,831
KB Global Star Game & Apps SPAC	1,034	-	(1,011)	-	17	(6)	-	14	48
Powerrex Corporation Co., Ltd.	1,951	-	-	-	(1,951)	-	-	-	-
Semiland Co., Ltd.	2,095	-	-	(11)	163	-	-	-	2,247

(in millions of Korean won)

	2011								
	Beginning	Acquisition	Disposal	Dividends	Gains (losses)	Other comprehensive income	Impairment losses	Others	Ending
Seho Robo Ind. Co., Ltd.	820	-	(1,358)	-	538	-	-	-	-
Serit Platform Co., Ltd.	1,438	-	-	-	13	-	-	-	1,451
Sehwa Electronics Co., Ltd.	3,385	-	-	-	53	16	-	-	3,454
Testian Co., Ltd.	857	-	-	-	(68)	-	-	-	789
Solice Co., Ltd.	2,007	-	(2,007)	-	-	-	-	-	-
KT Wibro infrastructure	100,139	-	-	-	3,910	-	-	-	104,049
Joam Housing Development Co., Ltd.	-	-	-	-	-	-	-	-	-
United PF 1st Recovery Private Equity Fund	-	148,000	-	-	(4,563)	-	-	-	143,437
lssanElecom(Shenyang) Co., Ltd.	-	-	-	-	-	-	-	-	-
Qingdao Danam Electronics Co., Ltd.	-	692	-	-	-	-	-	-	692
	₩ 723,411	₩ 176,105	₩ (4,376)	₩ (7,515)	₩ 25,437	₩ (456)	₩ (20,488)	₩ 14	₩ 892,132

¹ Kazakhstan has been experiencing liquidity problems and roll-over of borrowings in the financial sector due to depression of its domestic economy mainly driven by delays of recovery in the local real estate market and global credit crunch. The Group determined that the decrease in the investment value of its BCC shares were not expected to recover in the near future due to an adverse economic condition in Kazakhstan, particularly the real estate market and the fact that loan portfolio of BCC consisted mainly of loans collateralized by real estates. The recoverable amount of shares of JSC Bank CenterCredit, obtained from an independent third-party valuation service as of December 31, 2012 and 2011, amounts to ₩ 281,889 million and ₩ 365,059 million, respectively. Carrying value of shares of JSC Bank CenterCredit before recognizing impairment losses, amounts to ₩ 315,702 million and ₩ 385,547 million, respectively.

² Shares of CH Engineering Co., Ltd., Evalley Co., Ltd., Shinla Construction Co., Ltd. and PyungJeon Industries Co., Ltd. acquired through debt-equity swap, are reclassified as investments in associates due to termination of rehabilitation procedures.

Accumulated unrecognized share of losses of an associate due to discontinuing the use of the equity method as of December 31, 2012 and 2011, follows:

(in millions of Korean won)

	2012	
	Unrecognized loss	Unrecognized change in equity
Joam Housing Development Co., Ltd.	₩ (371)	₩ -
lssanElecom(Shenyang) Co., Ltd.	(1,199)	(13)
CH Engineering Co., Ltd.	(18)	-

(in millions of Korean won)

	2011	
	Unrecognized loss	Unrecognized change in equity
Joam Housing Development Co., Ltd.	₩ (566)	₩ -
lssanElecom(Shenyang) Co., Ltd.	(1,165)	(105)

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012							
	Acquisition cost		Accumulated depreciation		Accumulated impairment losses		Carrying amount
Land	₩	2,014,527	₩	-	₩	(581)	₩ 2,013,946
Buildings		1,211,056		(327,801)		(2,661)	880,594
Leasehold improvements		523,039		(467,381)		-	55,658
Equipment and vehicles		1,635,134		(1,492,395)		-	142,739
Construction in-progress		893		-		-	893
Financial lease assets		55,908		(46,141)		-	9,767
	₩	5,440,557	₩	(2,333,718)	₩	(3,242)	₩ 3,103,597

(in millions of Korean won)

2011							
	Acquisition cost		Accumulated depreciation		Accumulated impairment losses		Carrying amount
Land	₩	2,022,943	₩	-	₩	(581)	₩ 2,022,362
Buildings		1,200,813		(301,947)		(2,661)	896,205
Leasehold improvements		484,328		(424,742)		-	59,586
Equipment and vehicles		1,710,477		(1,513,746)		-	196,731
Construction in-progress		1,075		-		-	1,075
Financial lease assets		43,756		(33,695)		-	10,061
	₩	5,463,392	₩	(2,274,130)	₩	(3,242)	₩ 3,186,020

The changes in property and equipment for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012								
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Others	Ending	
Land	₩ 2,022,362	₩ 40	₩ (6,505)	₩ (1,878)	₩ -	₩ (73)	₩	₩ 2,013,946
Buildings	896,205	1,806	14,344	(2,667)	(28,849)	(244)		880,595
Leasehold improvements	59,586	4,574	32,591	(272)	(44,007)	3,186		55,658
Equipment and vehicles	196,731	75,109	-	(365)	(128,641)	(96)		142,738

(in millions of Korean won)

2012							
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Others	Ending
Construction in-progress	1,075	49,646	(49,828)	-	-	-	893
Financial lease assets	10,061	12,152	-	-	(12,446)	-	9,767
	₩ 3,186,020	₩ 143,327	₩ (9,398)	₩ (5,182)	₩ (213,943)	₩ 2,773	₩ 3,103,597

(in millions of Korean won)

2011							
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Others	Ending
Land	₩ 2,022,864	₩ 195	₩ (706)	₩ (18)	₩ -	₩ 27	₩ 2,022,362
Buildings	891,220	3,019	30,207	(26)	(28,307)	92	896,205
Leasehold improvements	50,634	11,414	39,195	(423)	(47,447)	6,213	59,586
Equipment and vehicles	174,818	160,319	-	(847)	(137,559)	-	196,731
Construction in-progress	119	76,258	(75,302)	-	-	-	1,075
Financial lease assets	10,605	10,700	-	-	(11,244)	-	10,061
	₩ 3,150,260	₩ 261,905	₩ (6,606)	₩ (1,314)	₩ (224,557)	₩ 6,332	₩ 3,186,020

¹ Including transfers with investment property and assets held for sale.² Including ₩ 232 million and ₩122 million recorded in other operating expenses in the statements of comprehensive income for the years ended December 31, 2012 and 2011, respectively.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012					
	Beginning	Impairment	Reversal	Others	Ending
₩	(3,242)	₩ -	₩ -	₩ -	₩ (3,242)

(in millions of Korean won)

2011					
	Beginning	Impairment	Reversal	Others	Ending
₩	(3,251)	₩ -	₩ -	₩ 9	₩ (3,242)

The details of investment property as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	Acquisition cost		Accumulated depreciation		Carrying amount	
Land	₩	38,653	₩	-	₩	38,653
Buildings		19,723		(5,402)		14,321
	₩	58,376	₩	(5,402)	₩	52,974

(in millions of Korean won)

	2011					
	Acquisition cost		Accumulated depreciation		Carrying amount	
Land	₩	37,451	₩	-	₩	37,451
Buildings		18,961		(4,860)		14,101
	₩	56,412	₩	(4,860)	₩	51,552

As of December 31, 2012 and 2011, fair values of the investment properties amount to ₩ 51,142 million and ₩ 48,996 million, respectively. The investment properties were valued by qualified independent appraisers with experience in valuing similar properties in the same location.

Rental income from the above investment properties for the years ended December 31, 2012 and 2011, amounts to ₩ 675 million and ₩ 683 million, respectively.

The changes in investment property for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012							
	Beginning		Transfers		Depreciation		Ending	
Land	₩	37,451	₩	1,202	₩	-	₩	38,653
Buildings		14,101		685		(465)		14,321
	₩	51,552	₩	1,887	₩	(465)	₩	52,974

(in millions of Korean won)

	2011							
	Beginning		Transfers		Depreciation		Ending	
Land	₩	38,633	₩	(1,182)	₩	-	₩	37,451
Buildings		14,288		264		(451)		14,101
	₩	52,921	₩	(918)	₩	(451)	₩	51,552

Property and equipment insured as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Type	Assets insured	Insurance coverage		Insurance company
		2012	2011	
General property insurance	Buildings ¹	₩ 1,138,216	₩ 1,061,097	Samsung Fire & Marine Insurance Co., Ltd. and others
	Leasehold improvements	117,600	134,595	
	Equipment and vehicles and others	142,828	179,804	
		₩ 1,398,644	₩ 1,375,496	

¹ Buildings include office buildings, investment properties and assets held for sale.

15. Intangible Assets

The details of intangible assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying Amount
Goodwill	₩ 251,209	₩ -	₩ (35,157)	₩ 216,052
Other intangible assets	786,565	(484,749)	(17,845)	283,971
	₩ 1,037,774	₩ (484,749)	₩ (53,002)	₩ 500,023

(in millions of Korean won)

	2011			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying Amount
Goodwill	₩ 143,209	₩ -	₩ -	₩ 143,209
Other intangible assets	760,538	(421,380)	(13,926)	325,232
	₩ 903,747	₩ (421,380)	₩ (13,926)	₩ 468,441

The details of goodwill as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				2011			
	Acquisition cost		Carrying amount		Acquisition cost		Carrying amount	
Housing & Commercial Bank	₩	65,288	₩	65,288	₩	65,288	₩	65,288
KB Cambodia Bank		1,202		1,202		1,202		1,202
KB Investment Securities		70,265		70,265		70,265		70,265
Powernet Technologies Co., Ltd.		6,454		6,454		6,454		6,454
KB Savings Bank Co., Ltd.		108,000		72,843		-		-
	₩	251,209	₩	216,052	₩	143,209	₩	143,209

The changes in accumulated impairment losses of goodwill for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012			
Beginning	Impairment ¹	Others	Ending
₩ -	₩ 35,157	₩ -	₩ 35,157

(in millions of Korean won)

2011			
Beginning	Impairment ¹	Others	Ending
₩ -	₩ -	₩ -	₩ -

¹ Industry environment of savings banks has deteriorated continuously since the recognition of goodwill and KB Saving Bank's performance fell short of expectations primarily due to a decline of benchmark interest rate during 2012. Considering the aforementioned recent downturns, the Group recognized the impairment of goodwill on KB Saving Bank.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2012, are as follows:

(in millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	KB Investment Securities	Powernet Technologies Co., Ltd.	KB Savings Bank Co., Ltd.	Total
	Retail Banking	Corporate Banking					
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 70,265	₩ 6,454	₩ 72,843	₩ 216,052
Recoverable amount exceeded carrying amount	86,263	106,736	2,441	52,137	5,811	-	253,388

(in millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	KB Investment Securities	Powernet Technologies Co., Ltd.	KB Savings Bank Co., Ltd.	Total
	Retail Banking	Corporate Banking					
Discount rate (%)	14.20	14.40	17.80	17.40	14.80	14.60	
Permanent growth rate (%)	2.90	2.90	4.90	2.90	2.90	2.00	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. However, KB Savings Bank Co., Ltd. used a period of seven years for projection considering the special characteristics of the business in the early stages. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.9% for Retail Banking, Corporate Banking, KB Investment Securities, and Powernet Technologies Co., Ltd., and 4.9% for KB Cambodia Bank and 2.0% KB Savings Bank Co., Ltd. for every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,436	₩ (1,018)	₩ -	₩ 418
Software	576,056	(408,024)	-	168,032
Other intangible assets	185,660	(59,383)	(17,845)	108,432
Finance leases assets	23,413	(16,324)	-	7,089
	₩ 786,565	₩ (484,749)	₩ (17,845)	₩ 283,971

(in millions of Korean won)

2011								
	Acquisition cost		Accumulated amortization		Accumulated impairment losses		Carrying amount	
Industrial property rights	₩	1,025	₩	(919)	₩	-	₩	106
Software		556,739		(340,421)		-		216,318
Other intangible assets		183,714		(69,396)		(13,926)		100,392
Finance leases assets		19,060		(10,644)		-		8,416
	₩	760,538	₩	(421,380)	₩	(13,926)	₩	325,232

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012														
	Beginning		Acquisition		Disposal		Transfer		Amortization ¹		Others		Ending	
Industrial property rights	₩	106	₩	429	₩	-	₩	-	₩	(102)	₩	(15)	₩	418
Software		216,318		52,576		(280)		-		(100,578)		(4)		168,032
Other intangible assets ²		100,392		25,042		(3,946)		-		(7,874)		(5,182)		108,432
Finance leases assets		8,416		4,353		-		-		(5,680)		-		7,089
	₩	325,232	₩	82,400	₩	(4,226)	₩	-	₩	(114,234)	₩	(5,201)	₩	283,971

(in millions of Korean won)

2011														
	Beginning		Acquisition		Disposal		Transfer		Amortization ¹		Others		Ending	
Industrial property rights	₩	85	₩	28	₩	-	₩	-	₩	(42)	₩	35	₩	106
Software		257,537		64,826		-		435		(106,480)		-		216,318
Other intangible assets ²		96,312		34,142		(9,310)		(435)		(6,361)		(13,956)		100,392
Finance leases assets		7,777		5,404		-		-		(4,765)		-		8,416
	₩	361,711	₩	104,400	₩	(9,310)	₩	-	₩	(117,648)	₩	(13,921)	₩	325,232

¹ Including ₩ 45 million and ₩ 41 million recorded in other operating expenses in the statements of comprehensive income for the years ended December 31, 2012 and 2011.

² Membership rights classified as other intangible assets with indefinite useful lives recognized impairment losses because their recoverable amount is lower than their carrying amount.

The changes in accumulated impairment losses on intangible assets, excluding goodwill, for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
	Beginning	Impairment	Reversal	Disposal and others	Ending
Accumulated impairment losses on intangible assets	₩ (13,926)	₩ (5,166)	₩ 72	₩ 1,175	₩ (17,845)

(in millions of Korean won)

	2011				
	Beginning	Impairment	Reversal	Disposal and others	Ending
Accumulated impairment losses on intangible assets	₩ -	₩ (13,926)	₩ -	₩ -	₩ (13,926)

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		
	Assets	Liabilities	Net amount
Other provisions	₩ 139,412	₩ (57)	₩ 139,355
Allowances for loan losses	1,144	(2,578)	(1,434)
Impairment losses on property and equipment	2,111	-	2,111
Interest on equity index-linked deposits	722	-	722
Share-based payments	6,191	-	6,191
Provisions for guarantees	50,398	-	50,398
Losses(gains) from valuation on derivatives	1,593	(39,501)	(37,908)
Present value discount	2,337	(7,081)	(4,744)
Losses(gains) from fair value hedged item	30,802	-	30,802
Accrued interest	-	(80,459)	(80,459)
Deferred loan origination fees and costs	8,745	(94,142)	(85,397)
Gains from revaluation	-	(276,421)	(276,421)
Investments in subsidiaries and others	49,128	(57,388)	(8,260)
Derivative linked securities	161,642	(160,131)	1,511
Others	467,144	(315,148)	151,996
	921,369	(1,032,906)	(111,537)
Off-setting of deferred income tax assets and liabilities	(902,937)	902,937	-
	₩ 18,432	₩ (129,969)	₩ (111,537)

(in millions of Korean won)

	2011		
	Assets	Liabilities	Net amount
Other provisions	₩ 113,752	₩ (115)	₩ 113,637
Allowances for loan losses	200	(2,574)	(2,374)
Impairment losses on property and equipment	3,065	-	3,065
Interest on equity index-linked deposits	1,785	-	1,785
Share-based payments	4,069	-	4,069
Provisions for guarantees	75,326	-	75,326
Losses(gains) from valuation on derivatives	1,584	(109,427)	(107,843)
Present value discount	3,770	(12,603)	(8,833)
Losses(gains) from fair value hedged item	26,522	-	26,522
Accrued interest	-	(91,147)	(91,147)
Deferred loan origination fees and costs	49	(96,848)	(96,799)
Gains from revaluation	-	(276,505)	(276,505)
Investments in subsidiaries and others	24,943	(41,541)	(16,598)
Derivative linked securities	444,766	(446,837)	(2,071)
Others	433,962	(254,709)	179,253
	1,133,793	(1,332,306)	(198,513)
Off-setting of deferred income tax assets and liabilities	(1,111,464)	1,111,464	-
	₩ 22,329	₩ (220,842)	₩ (198,513)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 83,745 million associated with investment in subsidiaries and associates as of December 31, 2012, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not reverse in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2012.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 2,492,775 million associated with investments in subsidiaries and others as of December 31, 2012, because it is not probable that the temporary differences will reverse in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 10 million, ₩ 817 million, ₩ 80,204 million and ₩ 87,342 million associated with sharebased payments, other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2012, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Losses(gains) from fair value hedged item	₩ 109,596	₩ 109,596	₩ 127,281	₩ 127,281
Other provisions	470,507	430,917	537,409	576,999
Allowances for loan losses	827	149	4,049	4,727
Impairment losses on property and equipment	12,666	12,666	8,723	8,723
Deferred loan origination fees and costs	204	204	36,136	36,136
Interest on equity index-linked deposits	7,378	7,378	2,985	2,985
Share-based payments	19,359	19,359	25,591	25,591
Provisions for guarantees	311,263	311,263	208,255	208,255
Gains(losses) from valuation on derivatives	6,548	6,548	6,581	6,581
Present value discount	15,579	15,579	9,655	9,655
Loss on SPE repurchase	80,204	-	-	80,204
Investments in subsidiaries and others	3,401,419	917,955	203,794	2,687,258
Derivative linked securities	1,837,877	1,837,877	667,942	667,942
Others	1,847,055	1,141,225	1,308,709	2,014,539
	8,120,482	4,810,716	3,147,110	6,456,876
Unrecognized deferred income tax assets:				
Share-based payments	2,546			10
Other provisions	365			817
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	3,299,083			2,492,775
Others	88,939			87,342
	4,649,345			3,795,728
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 1,133,793			₩ 921,369

(in millions of Korean won)

	2012			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (381,276)	₩ (287,013)	₩ (244,863)	₩ (339,126)
Allowances for loans losses	(10,636)	-	(18)	(10,654)
Deferred loan origination fees and costs	(400,199)	(400,199)	(389,017)	(389,017)
Gains(losses) from valuation on derivatives	(452,200)	(452,200)	(163,225)	(163,225)
Present value discount	(57,287)	(25,102)	-	(32,185)

(in millions of Korean won)

	2012			
	Beginning	Decrease	Increase	Ending
Goodwill	(65,288)	-	-	(65,288)
Gains on revaluation	(1,142,581)	(347)	-	(1,142,234)
Investments in subsidiaries and others	(5,345,703)	(562)	(525,003)	(5,870,144)
Derivative linked securities	(1,846,433)	(1,846,433)	(661,700)	(661,700)
Others	(1,058,606)	(190,495)	(440,703)	(1,308,814)
	(10,760,209)	(3,202,351)	(2,424,529)	(9,982,387)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(53,293)			(83,745)
	(10,641,628)			(9,833,354)
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ (1,332,306)			₩ (1,032,906)

(in millions of Korean won)

	2011			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Losses(gains) from fair value hedged item	₩ 129,178	₩ 129,178	₩ 109,596	₩ 109,596
Other provisions	584,999	894,311	779,819	470,507
Allowances for loan losses	20,269	35,642	16,200	827
Impairment losses on property and equipment	6,904	6,904	12,666	12,666
Deferred loan origination fees and costs	171	486	519	204
Interest on equity index-linked deposits	10,388	10,388	7,378	7,378
Share-based payments	30,271	30,271	19,359	19,359
Provisions for guarantees	414,048	428,288	325,503	311,263
Gains(losses) from valuation on derivatives	4,468	4,451	6,531	6,548
Present value discount	-	-	15,579	15,579
Dividends from SPEs	2,563	2,563	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investments in subsidiaries and others	3,484,474	83,055	-	3,401,419
Derivative securities	-	-	1,837,877	1,837,877
Others	1,394,001	1,352,107	1,805,161	1,847,055
	6,161,938	2,977,644	4,936,188	8,120,482

(in millions of Korean won)

	2011			
	Beginning	Decrease	Increase	Ending
Unrecognized deferred income tax assets:				
Share-based payments	15,834			2,546
Other provisions	1,477			365
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	3,272,930			3,299,083
Others	92,307			88,939
	2,699,186			4,649,345
Tax rate (%)	24.2, 22.0			24.2
Total deferred income tax assets from deductible temporary differences	₩ 641,672			₩ 1,133,793

(in millions of Korean won)

	2011			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (405,417)	₩ (309,036)	₩ (284,895)	₩ (381,276)
Allowances for loans losses	(57,578)	(40,796)	6,146	(10,636)
Deferred loan origination fees and costs	(312,168)	(311,853)	(399,884)	(400,199)
Advanced depreciation provisions	(460,918)	(460,918)	-	-
Gains(losses) from valuation on derivatives	(502,897)	(502,836)	(452,139)	(452,200)
Present value discount	(70,994)	(52,423)	(38,716)	(57,287)
Goodwill	(65,288)	-	-	(65,288)
Gains on revaluation	(1,142,809)	(9,529)	(9,301)	(1,142,581)
Investments in subsidiaries and others	(3,258,119)	(7,791)	(2,095,375)	(5,345,703)
Derivative securities	-	-	(1,846,433)	(1,846,433)
Others	(882,777)	(217,222)	(393,051)	(1,058,606)
	(7,158,965)	(1,912,404)	(5,513,648)	(10,760,209)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(26,894)			(53,293)
	(7,066,783)			(10,641,628)
Tax rate (%)	24.2, 22.0			24.2
Total deferred income tax assets from deductible temporary differences	₩ (921,202)			₩ (1,332,306)

17. Assets held for sale

The details of assets held for sale as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012								
	Acquisition cost ¹		Accumulated impairment		Carrying amount		Fair value less costs to sell	
Land	₩	5,288	₩	(2,613)	₩	2,675	₩	2,675
Buildings		35,883		(3,146)		32,737		32,737
	₩	41,171	₩	(5,759)	₩	35,412	₩	35,412

(in millions of Korean won)

2011								
	Acquisition cost ¹		Accumulated impairment		Carrying amount		Fair value less costs to sell	
Land	₩	7,807	₩	(2,501)	₩	5,306	₩	5,306
Buildings		8,371		(3,746)		4,625		4,625
	₩	16,178	₩	(6,247)	₩	9,931	₩	9,931

¹ Acquisition cost of buildings held for sale is net of accumulated depreciation.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012									
Beginning		Provision		Reversal		Others		Ending	
₩	(6,247)	₩	(5,708)	₩	-	₩	6,196	₩	(5,759)

(in millions of Korean won)

2011									
Beginning		Provision		Reversal		Others		Ending	
₩	(3,653)	₩	(3,931)	₩	312	₩	1,025	₩	(6,247)

As of December 31, 2012, assets held for sale consist of six real estate of closed offices and one real estate acquired through execution of security right, which the management of the Group was committed to a plan to sell, but not yet sold by December 31, 2012. As of reporting date, two assets out of the above assets held for sale are under negotiation for sale and the remaining five assets are also being actively marketed.

18. Other Assets

The details of other assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Other financial assets				
Other receivables	₩	3,236,027	₩	2,470,405
Receivables in gold		-		107
Accrued income		1,053,687		1,253,034
Guarantee deposits		1,369,716		1,333,370
Domestic exchange settlement debits		2,239,607		1,403,284
Others		247,044		304,694
Allowances for loan losses		(590,974)		(353,905)
Present value discount		(951)		(1,084)
		7,554,156		6,409,905
Other non-financial assets				
Other receivables		32,206		7,300
Prepaid expenses		266,282		307,742
Guarantee deposits		4,219		3,149
Insurance assets		155,676		128,450
Separate account assets		655,040		538,179
Others		95,626		92,133
Allowances on other asset		(7,988)		(8,339)
		1,201,061		1,068,614
	₩	8,755,217	₩	7,478,519

The changes in allowances for loan losses on other assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
	Other financial assets		Other non-financial assets		Total
Beginning	₩	353,905	₩	8,339	₩ 362,244
Written-off		(30,602)		(4,439)	(35,041)
Provision		46,508		4,088	50,596
Others		221,163		-	221,163
Ending	₩	590,974	₩	7,988	₩ 598,962

(in millions of Korean won)

	2011		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 364,530	₩ 24,210	₩ 388,740
Written-off	(19,859)	(19,800)	(39,659)
Provision	9,505	3,678	13,183
Others	(271)	251	(20)
Ending	₩ 353,905	₩ 8,339	₩ 362,244

19. Financial liabilities at fair value through profit or loss

The details of financial liabilities at fair value through profit or loss as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Financial liabilities held for trading		
Securities sold	₩ 1,342,119	₩ 522,112
Other	39,878	28,761
	1,381,997	550,873
Financial liabilities designated at fair value through profit or loss		
Derivative linked securities	469,138	837,206
	469,138	837,206
Total financial liabilities at fair value through profit or loss	₩ 1,851,135	₩ 1,388,079

The details of credit risk of financial liabilities designated at fair value through profit or loss as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Financial liabilities designated at fair value through profit or loss	₩ 469,138	₩ 837,206
Changes in fair value resulting from changes in the credit risk	3,812	(9,442)
Accumulated changes in fair value resulting from changes in the credit risk	(5,630)	(9,442)

20. Deposits

Deposits as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Deposits	₩	194,403,282	₩	190,337,890
Deferred financing costs		(3)		(300)
	₩	194,403,279	₩	190,337,590

The details of deposits as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Demand deposits in Korean won				
Checking deposits	₩	116,423	₩	146,658
Household checking deposits		434,814		434,134
Special deposits		3,093,868		2,691,674
Ordinary deposits		21,469,971		20,581,481
Public fund deposits		68,600		85,895
Treasury deposits		5,256		7,539
General savings deposits		24,668,545		23,471,543
Corporate savings deposits		10,504,790		10,209,575
Nonresident's deposit in Korean won		61,255		128,630
Nonresident's free deposit in Korean won		17,994		15,672
Others		186,192		308,181
		60,627,708		58,080,982
Demand deposits in foreign currencies				
Checking deposits		98,478		71,838
Ordinary deposits		1,809,712		1,661,358
Special deposits		1,316		1,145
Others		9,852		9,436
		1,919,358		1,743,777
		62,547,066		59,824,759

(in millions of Korean won)

	2012	2011
Time deposits in Korean won		
Time deposits	114,496,449	114,868,739
Installment savings deposits	7,088,988	5,454,573
Good-sum formation savings	33,586	338
Workers' savings for housing	-	2
Nonresident's deposit in Korean won	192,945	193,765
Long-term savings deposits for workers	1,692	1,862
Nonresident's free deposit in Korean won	76,835	85,875
Long-term housing savings deposits	3,083,602	3,309,833
Long-term savings for households	206	247
Preferential savings deposits for workers	323	489
Mutual installment deposits	1,143,415	1,273,806
Mutual installment for housing	1,005,752	1,173,404
Others	183	196
	127,123,976	126,363,129
Time deposits in foreign currencies		
Time deposits	2,954,348	2,604,603
Installment savings deposits	2,131	1,201
Others	23,694	23
	2,980,173	2,605,827
	130,104,149	128,968,956
Certificates of deposits	1,752,067	1,544,175
Total deposits	₩ 194,403,282	₩ 190,337,890

21. Debts

The details of debts as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)

	2012	2011
Borrowings	₩ 12,278,565	₩ 14,091,973
Bonds sold under repurchase agreements and others	1,094,031	1,590,400
Call money	2,596,926	1,141,465
	₩ 15,969,522	₩ 16,823,838

The details of borrowings as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		Lender	Annual interest rate (%)			2012	2011
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	1.25	₩	781,787	₩	650,616
	Borrowings from the government	KEMCO and others	0.00 ~ 5.00		626,059		690,750
	Borrowings from banking institutions	Industrial Bank of Korea and others	2.01 ~ 5.67		106,448		405,033
	Borrowings from non-banking financial institutions	The Korea Development Bank and others	0.99 ~ 3.76		268,491		91,254
	Other borrowings	The Korea Finance Corporation and others	0.04 ~ 5.74		3,716,879		3,538,983
					5,499,664		5,376,636
Borrowings in foreign currencies	Due to banks	Citibank N.A. and others	0.00 ~ 1.00		52,186		28,194
	Borrowings from banking institutions	Sumitomo Mitsui Banking Corp. and others	0.24 ~ 3.31		3,382,672		4,694,199
	Off-shore borrowings in foreign currencies	Central bank Uzbekistan and others	0.25 ~ 2.71		930,956		1,019,279
	Other borrowings	The Korea Finance Corporation	1.32		5,195		-
	Other borrowings	JP Morgan Chase Bank N.A. and others	-		2,407,892		2,973,665
					6,778,901		8,715,337
				₩	12,278,565	₩	14,091,973

The details of bonds sold under repurchase agreements and others as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		Lenders	Annual interest rate (%)			2012	2011
Bonds sold under repurchase agreements		Individuals, Groups, Corporations	1.39 ~ 7.30	₩	1,003,348	₩	1,511,875
Bills sold		Counter sale	1.80 ~ 3.53		90,683		78,525
				₩	1,094,031	₩	1,590,400

The details of call money as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Lenders	Annual interest rate (%)	2012		2011	
Call money in Korean won	The Korea Development Bank and others	2.57 ~ 2.72	₩	2,018,100	₩	314,200
Call money in foreign currencies	Centralbank Uzbekistan and others	0.15 ~ 0.47		578,826		827,265
			₩	2,596,926	₩	1,141,465

Call money and borrowings from financial institutions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ -	₩ 1,431,826	₩ 1,165,100	₩ 2,596,926
Borrowings	781,787	6,550,903	1,438,969	8,771,659
	₩ 781,787	₩ 7,982,729	₩ 2,604,069	₩ 11,368,585

(in millions of Korean won)

	2011			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ -	₩ 932,410	₩ 209,055	₩ 1,141,465
Borrowings	650,616	9,064,282	1,216,359	10,931,257
	₩ 650,616	₩ 9,996,692	₩ 1,425,414	₩ 12,072,722

22. Debentures

The details of debentures as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	Annual interest rate (%)	2012		2011	
Debentures in Korean won					
Hybrid capital instrument	8.50	₩	100,000	₩	100,000
Structured debentures	2.00 ~ 8.62		1,699,238		3,424,238

(in millions of Korean won)

	Annual interest rate (%)	2012	2011
Subordinated fixed rate debentures in Korean won	3.40 ~ 7.70	7,896,760	7,995,571
Fixed rate debentures in Korean won	2.77 ~ 7.95	10,132,425	10,791,612
Floating rate debentures in Korean won	2.96 ~ 10.74	1,068,258	803,258
		20,896,681	23,114,679
Fair value adjustments on fair value hedged financial debentures in Korean won			
Fair value adjustments on valuation of fair value hedged items (current period portion)		36,417	15,964
Fair value adjustments on valuation of fair value hedged items (prior year portion)		52,572	42,494
		88,989	58,458
Discount or premium on debentures in Korean won			
Discount on debentures		(15,647)	(52,290)
		20,970,023	23,120,847
Debentures in foreign currencies			
Floating rate debentures	1.18 ~ 4.54	759,783	1,309,606
Fixed rate debentures	0.60 ~ 7.25	2,553,814	2,705,167
		3,313,597	4,014,773
Fair value adjustments on fair value hedged debentures in foreign currencies			
Fair value adjustments on valuation of fair value hedged items (current period portion)		(68,212)	47,986
Fair value adjustments on valuation of fair value hedged items (prior year portion)		(69,060)	(90,778)
		(137,272)	(42,792)
Discount or premium on debentures in foreign currencies			
Discount on debentures		(14,578)	(22,949)
		3,161,747	3,949,032
		₩ 24,131,770	₩ 27,069,879

The changes in debentures based on face value for the year ended December 31, 2012, are as follows:

(in millions of Korean won)

	2012				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ -	₩ -	₩ 100,000

(in millions of Korean won)

	2012				
	Beginning	Issues	Repayments	Others	Ending
Structured debentures	3,424,238	310,000	(2,035,000)	-	1,699,238
Subordinated fixed rate debentures in Korean won	7,995,571	1,799,980	(1,898,791)	-	7,896,760
Fixed rate debentures in Korean won	10,791,612	6,175,300	(6,834,487)	-	10,132,425
Floating rate debentures in Korean won	803,258	765,000	(500,000)	-	1,068,258
	23,114,679	9,050,280	(11,268,278)	-	20,896,681
Debentures in foreign currencies					
Floating rate debentures	1,309,606	198,478	(682,622)	(65,679)	759,783
Fixed rate debentures	2,705,167	1,034,162	(1,042,992)	(142,523)	2,553,814
	4,014,773	1,232,640	(1,725,614)	(208,202)	3,313,597
	₩ 27,129,452	₩ 10,282,920	₩ (12,993,892)	₩ (208,202)	₩ 24,210,278

The changes in debentures based on face value for the year ended December 31, 2011, are as follows:

(in millions of Korean won)

	2011				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ -	₩ -	₩ 100,000
Structured debentures	3,684,341	500,000	(760,103)	-	3,424,238
Subordinated fixed rate debentures in Korean won	7,323,268	800,000	(127,697)	-	7,995,571
Fixed rate debentures in Korean won	13,273,928	6,940,000	(9,422,316)	-	10,791,612
Floating rate debentures in Korean won	833,258	690,000	(720,000)	-	803,258
	25,214,795	8,930,000	(11,030,116)	-	23,114,679
Debentures in foreign currencies					
Floating rate debentures	1,686,459	322,800	(789,143)	89,490	1,309,606
Fixed rate debentures	2,337,759	412,374	(33,217)	(11,749)	2,705,167
	4,024,218	735,174	(822,360)	77,741	4,014,773
	₩ 29,239,013	₩ 9,665,174	₩ (11,852,476)	₩ 77,741	₩ 27,129,452

23. Provisions

The details of provisions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Provisions for unused loan commitments	₩	236,026	₩	259,427
Provisions for acceptances and guarantees		208,753		311,502
Provisions for financial guarantee contracts		7,383		7,959
Provisions for asset retirement obligation		65,226		60,059
Other		152,341		158,792
	₩	669,729	₩	797,739

Provisions for unused loan commitments as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
		Commitments outstanding	Provision	Ratio (%)	
Corporate loan commitments	₩	40,770,994	₩	106,025	0.26
Retail loan commitments		14,348,821		41,273	0.29
Credit line on credit cards		36,214,899		88,728	0.25
	₩	91,334,714	₩	236,026	0.26

(in millions of Korean won)

	2011				
		Commitments outstanding	Provision	Ratio (%)	
Corporate loan commitments	₩	36,365,468	₩	102,301	0.28
Retail loan commitments		14,632,998		44,499	0.30
Credit line on credit cards		39,070,550		112,627	0.29
	₩	90,069,016	₩	259,427	0.29

Provisions for acceptances and guarantees as of December 31, 2012 and 2011, are as follows:

	2012			
		Acceptances and guarantees	Provision	Ratio (%)
Confirmed acceptances and guarantees in Korean won	₩	1,564,128	₩ 33,554	2.15
Confirmed acceptances and guarantees in foreign currencies		3,609,636	75,859	2.10
Unconfirmed acceptances and guarantees		4,244,517	99,340	2.34
	₩	9,418,281	₩ 208,753	2.22

	2011			
		Acceptances and guarantees	Provision	Ratio (%)
Confirmed acceptances and guarantees in Korean won	₩	1,605,167	₩ 39,318	2.45
Confirmed acceptances and guarantees in foreign currencies		4,242,061	119,548	2.82
Unconfirmed acceptances and guarantees		5,695,456	152,636	2.68
	₩	11,542,684	₩ 311,502	2.70

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012			
		Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩	259,427	₩ 311,502	₩ 570,929
Effects of changes in foreign exchange rate		(770)	(10,219)	(10,989)
Reversal		(22,631)	(68,777)	(91,408)
Others		-	(23,753)	(23,753)
Ending	₩	236,026	₩ 208,753	₩ 444,779

(in millions of Korean won)

	2011		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 284,667	₩ 414,254	₩ 698,921
Effects of changes in foreign exchange rate	132	2,130	2,262
Reversal	(25,372)	(104,882)	(130,254)
Ending	₩ 259,427	₩ 311,502	₩ 570,929

The changes in provisions for financial guarantee contracts for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Beginning	₩ 7,959	₩ 18,866
Reversal	(576)	(10,907)
Ending	₩ 7,383	₩ 7,959

The changes in provisions for asset retirement obligation for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Beginning	₩ 60,059	₩ 49,461
Provision	4,115	5,893
Reversal	-	(94)
Used	(1,296)	(1,845)
Unwinding of discount	2,483	2,719
Effects of changes in discount rate	(135)	3,925
Ending	₩ 65,226	₩ 60,059

Provisions for asset retirement obligations are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease period. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The details of other provisions as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Membership rewards program	₩	11,108	₩	13,495
Dormant accounts		16,028		11,292
Litigations		21,215		49,286
Others		103,990		84,719
	₩	152,341	₩	158,792

The changes in other provisions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					Total				
	Membership rewards program	Dormant accounts	Litigations	Others						
Beginning	₩	13,495	₩	11,292	₩	49,286	₩	84,719	₩	158,792
Increase		15,958		13,998		18,073		51,799		99,828
Decrease		(18,345)		(9,262)		(46,144)		(32,528)		(106,279)
Ending	₩	11,108	₩	16,028	₩	21,215	₩	103,990	₩	152,341

(in millions of Korean won)

	2011					Total				
	Membership rewards program	Dormant accounts	Litigations	Others						
Beginning	₩	12,437	₩	9,773	₩	6,200	₩	224,412	₩	252,822
Increase		16,759		10,377		69,479		5,081		101,696
Decrease		(15,701)		(8,858)		(26,393)		(144,774)		(195,726)
Ending	₩	13,495	₩	11,292	₩	49,286	₩	84,719	₩	158,792

24. Defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The defined benefit liability recognized in the statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation methods.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through profit or loss.

The changes in the defined benefit obligation for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Present value of defined benefit obligation (beginning)	₩	728,884	₩	491,989
Current service cost		154,905		145,397
Interest cost		31,158		24,883
Actuarial gains(losses)		41,183		40,685
Exchange difference on foreign plans		(85)		29
Benefits paid		(24,308)		(17,885)
Past service cost ¹		12,855		45,538
Curtailements		(389)		(827)
Settlements		(541)		(925)
Present value of defined benefit obligation (ending)	₩	943,662	₩	728,884

¹ Past service cost for the year ended December 31, 2011, included ₩ 34,427 million transferred from other provisions.

The changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Fair value of plan assets (beginning)	₩	600,396	₩	366,526
Expected return on plan assets		25,009		15,382
Actuarial gains(losses)		2,019		982
Contributions		255,078		235,736
Benefits paid		(23,596)		(17,658)
Settlements		(221)		(572)
Fair value of plan assets (ending)	₩	858,685	₩	600,396

The details of defined benefit liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Present value of defined benefit obligation	₩	943,662	₩	728,884
Fair value of plan assets		(858,685)		(600,396)
Unrecognized past service cost		(9,820)		-
Defined benefit liability	₩	75,157	₩	128,488

The details of post-employment benefits recognized in profit and loss as employee compensation and benefits for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Current service cost	₩	154,905	₩	145,397
Interest cost		31,158		24,883
Expected return on plan assets		(25,009)		(15,382)
Actuarial losses(gains)		39,164		39,703
Past service cost		3,035		11,111
Curtailments		(389)		(827)
Post-employment benefits ¹	₩	202,864	₩	204,885

¹ Post-employment benefits amounting to ₩ 1,179 million and ₩ 548 million for the years ended December 31, 2012 and 2011, respectively, are recognized as other operating expense in the statements of comprehensive income.

The actual return on plan assets is ₩ 27,028 million and ₩ 16,364 million for the years ended December 31, 2012 and 2011, respectively.

The details of plan assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Time deposits	₩	858,685	₩	600,396

Key actuarial assumptions used as of December 31, 2012 and 2011, are as follows:

	Ratio (%)	
	2012	2011
Discount rate	3.00 ~ 3.64	3.76 ~ 4.40
Expected return on plan assets	3.20 ~ 4.19	3.71 ~ 3.91
Future salary increase rate	0.00 ~ 8.90	0.00 ~ 10.00

Mortality assumptions are based on the 2012 Korea standard mortality rates table.

The present value of defined benefits obligation, fair value of plan assets and actuarial adjustments to each items as of December 31, 2012, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Present value of defined benefits obligation	₩ 943,662	₩ 728,884	₩ 491,989	₩ 584,404
Fair value of plan assets	(858,685)	(600,396)	(366,526)	(417,017)
Unrecognized Past service cost	(9,820)	-	-	-
Deficit in the funded plans	75,157	128,488	125,463	167,387
Experience adjustments on defined benefits obligation	20,741	24,075	(75,924)	-
Changes in assumptions to defined benefits obligation	20,442	16,610	51,018	-
Experience adjustments to plan assets	(2,019)	(982)	6,966	-

Expected contributions to plan assets for the year ending December 31, 2013, are ₩ 85,915 million.

25. Other liabilities

The details of other liabilities, excluding defined benefits liabilities, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Other financial liabilities		
Other payables	₩ 3,866,824	₩ 3,000,703
Prepaid card and debit card	18,165	20,151
Accrued expenses	4,191,789	4,219,075

(in millions of Korean won)

	2012	2011
Financial guarantee liabilities	8,174	7,217
Deposits for letter of guarantees and others	114,171	154,542
Domestic exchange settlement credits	167,842	133,568
Foreign exchanges settlement credits	52,456	88,480
Borrowings from other business account	34,367	11,827
Other payables from trust accounts	2,115,603	1,918,766
Liability Incurred by agency relationship	499,249	197,537
Account for agency businesses	402,290	134,256
Dividend payables	489	-
Other payables from factored receivables	78,025	-
Others	42,424	75,983
	11,591,868	9,962,105
Other non-financial liabilities		
Other payables	29,027	126,666
Unearned revenue	117,009	125,190
Accrued expenses	229,441	184,412
Deferred revenue on credit card points	111,838	106,132
Withholding taxes	121,700	154,478
Insurance liabilities	4,837,166	3,531,436
Separate account liabilities	661,782	543,819
Others	38,667	351,931
	6,146,630	5,124,064
	₩ 17,738,498	₩ 15,086,169

26. Equity

26.1 Share capital

The details of outstanding shares of the Parent Company as of December 31, 2012 and 2011, are as follows:

	Ordinary shares	
	2012	2011
Number of shares authorized	1,000,000,000	1,000,000,000
Number of shares	386,351,693	386,351,693
Par value per share	₩ 5,000	₩ 5,000
Share capital stock ¹	₩ 1,931,758	₩ 1,931,758

¹ In millions of Korean won.

26.2 Capital surplus

The details of capital surplus as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Share premium	₩	12,226,596	₩	12,226,596
Loss on sale of treasury shares		(568,544)		(568,544)
Other capital surplus		4,182,248		4,183,772
	₩	15,840,300	₩	15,841,824

The changes in the loss on sale of treasury shares for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

				2012	
	Beginning	Changes	Tax effect		Ending
₩	(568,544)	-	-	₩	(568,544)

(in millions of Korean won)

				2011	
	Beginning	Changes	Tax effect		Ending
₩	(420,484)	(195,285)	47,225	₩	(568,544)

26.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Exchange differences on translating foreign operations	₩	(27,061)	₩	(1,465)
Change in value of available-for-sale financial assets		438,760		200,275
Change in value of held-to-maturity financial assets		(1,225)		(1,652)
Shares of other comprehensive income of associates		(48,372)		(4,195)
Cash flow hedges		(2,133)		(1,321)
	₩	359,969	₩	191,642

26.4 Retained earnings

The details of retained earnings as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)

	2012		2011	
Legal reserves ¹	₩	124,014	₩	124,014
Voluntary reserves		982,000		982,000
Unappropriated retained earnings		5,271,477		3,846,737
	₩	6,377,491	₩	4,952,751

¹ With respect to the allocation of net profit earned in a fiscal term, the Parent Company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its share capital in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to share capital, or used to reduce accumulated deficit.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 26 through 28 of Supervisory Regulations on Financial Holding Companies.

The details of the regulatory reserve for credit losses as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Regulatory reserve for credit losses attributable to:				
Shareholders of the Parent Company	₩	2,136,367	₩	1,816,074
Non-controlling interests		1,184		643
	₩	2,137,551	₩	1,816,717

The adjustments to the regulatory reserve for credit losses as of December 31, 2012 and 2011, are as follows:

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

	2012		2011	
Provision(reversal) of regulatory reserve for credit losses	₩	320,293	₩	512,975
Adjusted profit after provision(reversal) of regulatory reserve for credit losses ¹		1,382,620		1,860,051
Adjusted basic earnings per share after provision (reversal) of regulatory reserve for credit losses ¹		3,579		5,064
Adjusted diluted earnings per share after provision (reversal) of regulatory reserve for credit losses ¹		3,568		5,052

¹ Adjusted profit after provision(reversal) of regulatory reserve for credit losses is not accordance with K-IFRS and calculated on the assumption that provision(reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

27. Net Interest Income

The details of interest income and interest expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Interest income		
Due from financial institutions	₩ 160,030	₩ 74,663
Loans	12,383,831	12,226,763
Financial investments		
Available-for-sale financial assets	801,565	775,783
Held-to-maturity financial assets	626,763	693,605
Other	183,636	185,443
	14,155,825	13,956,257
Interest expenses		
Deposits	5,318,726	4,944,615
Debts	394,812	324,076
Debentures	1,257,316	1,508,328
Other	69,058	74,726
	7,039,912	6,851,745
Net interest income	₩ 7,115,913	₩ 7,104,512

Interest income recognized on impaired loans and financial investments amounts to ₩ 124,183 million (2011: ₩ 121,221 million) and ₩ 200 million (2011: ₩ 200 million), respectively, for the years ended December 31, 2012 and 2011.

28. Net Fee and Commission income

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Fee and commission income		
Banking activity fees	₩ 169,244	₩ 188,652
Lending activity fees	89,964	88,521
Credit card related fees and commissions	1,179,618	1,142,306
Debit card related fees and commissions	217,870	192,686
Agent activity fees	286,600	238,216
Trust and other fiduciary fees	171,746	165,772
Fund management related fees	81,477	75,699
Guarantee fees	33,594	34,181

(in millions of Korean won)

	2012	2011
Foreign currency related fees	108,611	114,722
Commissions from transfer agent services	174,829	211,776
Other business account commission on consignment	30,354	173,893
Securities brokerage fees	67,858	57,435
Other	166,903	145,895
	2,778,668	2,829,754
Fee and commission expense		
Trading activity related fees ¹	14,962	3,498
Lending activity fees	6,605	2,743
Credit card related fees and commissions	997,368	842,294
Outsourcing related fees	62,153	61,551
Foreign currency related fees	11,638	18,003
Management fees of written-off loans	3,169	6,331
Other	90,132	100,584
	1,186,027	1,035,004
Net fee and commission income	₩ 1,592,641	₩ 1,794,750

¹ The fees from financial assets/liabilities at fair value through profit or loss.

29. Net gains or losses on financial assets/liabilities at fair value through profit or loss

29.1 Net gains or losses on financial instruments held for trading

Net gain or loss from financial instruments held for trading includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012	2011
Gains related to financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 301,432	₩ 284,225
Equity securities	107,732	70,345
	409,164	354,570

(in millions of Korean won)

	2012	2011
Derivatives held for trading		
Interest rate	946,936	970,825
Currency	2,726,277	4,194,484
Stock or stock index	685,454	365,123
Credit	-	1,107
Commodity	486	2,421
Other	10,482	3,775
	4,369,635	5,537,735
Financial liabilities held for trading	69,866	48,483
Other financial instruments	48	1,046
	₩ 4,848,713	₩ 5,941,834
Losses related to financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 63,291	₩ 76,661
Equity securities	69,814	96,571
	133,105	173,232
Derivatives held for trading		
Interest rate	961,535	1,011,068
Currency	2,275,295	3,308,219
Stock or stock index	665,037	305,610
Credit	-	848
Commodity	506	2,238
Other	11,582	3,260
	3,913,955	4,631,243
Financial liabilities held for trading	113,929	107,786
Other financial instruments	35	816
	4,161,024	4,913,077
Net gains or losses on financial instruments held for trading	₩ 687,689	₩ 1,028,757

29.2 Net gains or losses on financial instruments designated at fair value through profit or loss

Net gain or loss from financial instruments designated at fair value through profit or loss includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Gains related to financial instruments designated at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	₩	117,213	₩	6,231
Financial liabilities designated at fair value through profit or loss		5,230		66,126
		122,443		72,357
Losses related to financial instruments designated at fair value through profit or loss				
Financial assets designated at fair value through profit or loss		6,753		57,084
Financial liabilities designated at fair value through profit or loss		152,176		8,163
		158,929		65,247
Net gains or losses on financial instruments designated at fair value through profit or loss	₩	(36,486)	₩	7,110

30. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Other operating income				
Revenue related to available-for-sale financial assets				
Gains on redemption of available-for-sale financial assets	₩	480	₩	118
Gains on sale of available-for-sale financial assets		149,833		551,506
		150,313		551,624
Revenue related to held-to-maturity financial assets				
Reversal of impairment losses on held-to-maturity financial assets		-		117
		-		117
Gains on foreign exchange transactions		1,095,999		1,562,633
Income related to insurance		1,730,466		1,011,089
Dividend income		91,882		94,391
Others		321,442		464,340
		3,390,102		3,684,194

(in millions of Korean won)

	2012	2011
Other operating expenses		
Expense related to available-for-sale financial assets		
Loss on redemption of available-for-sale financial assets	11	22
Loss on sale of available-for-sale financial assets	16,877	19,038
Impairment on available-for-sale financial assets	281,053	51,072
	297,941	70,132
Expense related to held-to-maturity financial assets		
Impairment on held-to-maturity financial assets	154	150
	154	150
Loss on foreign exchanges transactions	1,412,769	2,208,390
Expense related to insurance	1,822,178	1,088,357
Others	1,312,330	1,409,174
	4,845,372	4,776,203
Net other operating income (expenses)	₩ (1,455,270)	₩ (1,092,009)

31. General and administrative expenses

31.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012	2011 ¹
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,600,144	₩ 1,657,823
Salaries and short-term employee benefits - others	656,772	521,894
Post employment benefits - defined benefit plans	201,685	204,337
Post employment benefits - defined contribution plans	5,463	4,005
Termination benefits	(3,960)	12,308
Share-based payments(reversal) ²	13,871	(7,609)
	2,473,975	2,392,758
Depreciation and amortization	328,365	342,493

(in millions of Korean won)

	2012	2011
Other general and administrative expenses		
Rental expense	276,813	255,760
Tax and dues	72,228	144,716
Communication	53,583	73,531
Electricity and utilities	24,946	23,535
Publication	20,764	23,308
Repairs and maintenance	13,447	15,576
Vehicle	12,330	11,392
Travel	5,701	5,405
Training	22,443	25,300
Service fees	106,272	99,706
Others	474,418	518,328
	1,082,945	1,196,557
	₩ 3,885,285	₩ 3,931,808

¹ Other general and administrative expenses for the year ended December 31, 2011, reclassified as employee benefits, amount to ₩ 521,894 million.

² Reversal of share-based payments was due to the decrease in share price.

31.2 Share-based payments

31.2.1 Share options

The details of the share options as of December 31, 2012, are as follows:

(In number of shares)

	Grant date	Exercise period (Years)	Granted shares ¹	Vesting conditions
Series 15-1	2005.03.18	8	165,000	Service period: 3 years ³
Series 15-2	2005.03.18	8	690,000	Service period: 3 years ⁴
Series 17	2005.07.22	8	30,000	Service period: 3 years ⁴
Series 18	2005.08.23	8	15,000	Service period: 3 years ⁴
Series 19	2006.03.24	8	930,000	Service period: 1, 2, 3 years ²
Series 20	2006.04.28	8	30,000	Service period: 3 years ²
Series 21	2006.10.27	8	20,000	Service period: 2 years ²
Series 22	2007.02.08	8	855,000	Service period: 1, 3 years ²
Series 23	2007.03.23	8	30,000	Service period: 3 years ²
			2,765,000	

¹ Granted shares represent the total number of shares initially granted to directors and employees whose options have not been exercised at the end of the reporting period.

² The exercise price is indexed to the sum of the major competitors' total market capitalization.

³ The exercise price is indexed to the banking industry index.

⁴ The exercisability and number of shares are linked to certain performance conditions for the service period.

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2012 and 2011, are as follows:

(In Korean won, except shares)

	2012						
	Number of granted shares				Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
	Beginning	Exercised	Expired	Ending			
Series 12	54,250	-	54,250	-	-	-	-
Series 13-1	20,000	-	20,000	-	-	-	-
Series 15-1	125,362	-	-	125,362	125,362	54,656	0.21
Series 15-2	440,928	-	-	440,928	440,928	46,800	0.21
Series 17	29,441	-	-	29,441	29,441	49,200	0.56
Series 18	7,212	-	-	7,212	7,212	53,000	0.64
Series 19	751,651	-	-	751,651	751,651	77,063	1.23
Series 20	25,613	-	-	25,613	25,613	81,900	1.32
Series 21	18,987	-	-	18,987	18,987	76,600	1.82
Series 22	657,498	-	-	657,498	657,498	77,100	2.11
Series 23	15,246	-	-	15,246	15,246	84,500	2.22
	2,146,188	-	74,250	2,071,938	2,071,938		
Weighted average exercise price	₩ 68,144	₩ -	₩ 46,787	₩ 68,909	₩ 68,909		

(In Korean won, except shares)

	2011						
	Number of granted shares				Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
	Beginning	Exercised	Expired	Ending			
Series 10-1	40,063	23,385	16,678	-	-	-	-
Series 10-2	51,303	51,303	-	-	-	-	-
Series 11	5,091	5,091	-	-	-	-	-
Series 12	54,250	-	-	54,250	54,250	46,100	0.11
Series 13-1	20,000	-	-	20,000	20,000	48,650	0.23
Series 15-1	125,362	-	-	125,362	125,362	54,656	1.21
Series 15-2	450,928	10,000	-	440,928	440,928	46,800	1.21
Series 16	8,827	8,827	-	-	-	-	-
Series 17	29,441	-	-	29,441	29,441	49,200	1.56
Series 18	7,212	-	-	7,212	7,212	53,000	1.65
Series 19	751,651	-	-	751,651	751,651	77,063	2.33
Series 20	25,613	-	-	25,613	25,613	81,900	2.33
Series 21	18,987	-	-	18,987	18,987	76,600	2.82
Series 22	657,498	-	-	657,498	657,498	77,100	3.11

(In Korean won, except shares)

	2011						
	Number of granted shares				Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
	Beginning	Exercised	Expired	Ending			
Series 23	15,246	-	-	15,246	15,246	84,500	3.23
Series Kookmin Credit Card -1	22,146	-	22,146	-	-	-	-
Series Kookmin Credit Card -2	9,990	-	9,990	-	-	-	-
	2,293,608	98,606	48,814	2,146,188	2,146,188		
Weighted average exercise price	₩ 67,108	₩ 40,630	₩ 75,058	₩ 68,144	₩ 68,144		

The weighted-average share price for share options exercised during the year ended December 31, 2011, was ₩ 57,960.

The fair value of each option granted is estimated using a Black-Scholes option pricing model based on the assumptions in the table below:

(In Korean won)

	Share price	Weighted average exercise price	Expected volatility (%)	Option's expected life (Years)	Expected dividends	Risk free interest rate (%)	Fair value
Series 15-1 (Directors)	₩ 37,200	₩ 54,656	12.63	0.11	₩ 33	2.78	-
Series 15-2 (Directors)	37,200	46,800	12.63	0.11	33	2.78	-
Series 15-2 (Employees)	37,200	46,800	12.63	0.11	33	2.78	-
Series 17 (Directors)	37,200	49,200	20.97	0.28	86	2.78	11
Series 18 (Employees)	37,200	53,000	23.46	0.32	100	2.78	6
Series 19 (Directors)	37,200	76,726	22.99	0.61	189	2.78	-
Series 19 (Employees)	37,200	77,390	18.90	0.15	47	2.78	-
Series 20 (Employees)	37,200	81,900	21.49	0.25	77	2.78	-
Series 21 (Employees)	37,200	76,600	24.73	0.75	230	2.78	3

(In Korean won)

	Share price	Weighted average exercise price	Expected volatility (%)	Option's expected life (Years)	Expected dividends	Risk free interest rate (%)	Fair value
Series 22 (Directors)	37,200	77,100	25.85	1.05	323	2.78	12
Series 22 (Employees)	37,200	77,100	26.04	1.03	316	2.78	14
Series 23 (Non-executive directors)	37,200	84,500	27.27	1.11	340	2.78	9

The option's expected life is separately estimated for employees and directors using actual historical behavior and projected future behavior to reflect the effects of expected early exercise. Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option. To reflect the changes in exercise price which is indexed to the sum of the major competitors' total market capitalization, cross volatility is used in calculating the expected volatility.

31.2.2 Share Grants

The Group changed the scheme of share-based payment from share options to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grants as of December 31, 2012, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
(KB Financial Group Inc.)			
Series 1	2008.09.29	2,543	Services fulfillment, Achievement of targets on the basis of market and non-market performance ²
Series 2	2009.03.27	3,090	Service fulfillment ³
Series 3	2010.01.01	32,256	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{4,10}
Series 4	2010.07.13	218,944	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{5,10}
Series 5	2010.12.23	13,260	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{6,10}
Series 6	2011.08.10	8,183	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{6,10}
Series 7	2012.01.01	42,568	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{4,10}
		320,844	

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
(Kookmin Bank)			
Series 23	2010.07.29	73,650	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{7,10}
Series 24	2010.08.03	25,707	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10,11}
Series 25	2010.08.12	18,472	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{7,10}
Series 27	2010.09.20	6,222	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 28	2010.12.21	50,310	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 29	2010.12.23	5,559	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 31	2011.01.03	16,479	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 32	2011.03.24	7,986	Services fulfillment, Achievement of targets on the basis of non-market performance ^{9,10}
Series 33	2011.07.07	6,025	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 34	2011.08.10	10,242	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 35	2011.10.12	8,846	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 36	2011.10.18	8,596	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{10,12}
Series 37	2011.12.23	68,310	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 38	2012.01.01	171,100	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 39	2012.01.08	120,176	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 40	2012.08.01	8,978	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 41	2012.08.02	36,938	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 42	2012.09.20	8,244	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}
Series 43	2012.11.26	13,918	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{8,10}

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
Grant deferred in 2010	-	10,392	Satisfied
Grant deferred in 2011	-	26,884	Satisfied
Grant deferred in 2012	-	13,547	Satisfied
		716,581	
(Other subsidiaries)			
Share granted in 2010		33,822	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
Share granted in 2011		38,931	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
Share granted in 2012		63,976	Services fulfillment, Achievement of targets on the basis of market and non-market performance ¹³
		136,729	
		1,174,154	

¹ Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

² The vesting condition is to fulfill the remaining contracted service period. The number of certain granted shares to be compensated is determined based on the fulfillment of service requirements. The 30%, 30% and 40% of the number of certain granted shares to be compensated are determined upon the accomplishment of the targeted KPIs, the targeted financial results of the Group and the targeted relative TSR, respectively.

³ The number of granted shares to be compensated is determined based on fulfillment of service requirements.

⁴ The 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of targeted KPIs, targeted financial results of the Group and targeted relative TSR, respectively. However, 50% of certain granted shares will be compensated based on the accomplishment of targeted KPIs and the remaining 50% of those shares will be compensated based on the accomplishment of targeted relative TSR.

⁵ The 37.5%, 37.5% and 25% of the number of certain granted shares to be compensated are determined based on the accomplishment of targeted relative TSR, targeted relative EPS ratio and qualitative indicators, respectively. The 30%, 30% and 40% of the number of other granted shares to be compensated are determined based on the accomplishment of targeted KPIs, targeted financial results of the Group and targeted relative TSR, respectively. The 40%, 40% and 20% of the number of the remaining granted shares to be compensated are determined based on the accomplishment of the targeted relative EPS ratio, the targeted relative TSR and qualitative indicators, respectively.

⁶ The 40%, 30% and 30% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted KPIs and the targeted financial results of the Group, respectively.

⁷ The 40%, 40% and 20% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted relative TSR, the targeted relative EPS ratio and qualitative indicators, such as a trend of ROA of last two years, respectively.

⁸ The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPIs, the targeted financial results of the Kookmin Bank and the targeted relative TSR, respectively.

⁹ The number of granted shares to be compensated is not linked to performance, but fixed.

¹⁰ Certain portion of the granted shares is compensated over a maximum period of three years.

¹¹ Fair value of compensation per granted share is confirmed.

¹² Half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other is determined by the targeted KPIs.

¹³ The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPIs, subsidiary's MOU with the Group and the targeted relative TSR, respectively. The 60% and 40% of the number of certain granted shares to be compensated are determined based on subsidiary's MOU with the Group and the targeted relative TSR, respectively.

The details of share grants linked to short-term performance as of December 31, 2012, are as follows:

	Grant date	Number of vested shares ¹	Vesting conditions
(KB Financial Group Inc.)			
Share granted in 2010	2010.01.01	6,149	Satisfied
Share granted in 2011	2011.01.01	19,279	Satisfied
Share granted in 2012	2012.01.01	24,257	Proportion to service period
(Kookmin Bank)			
Share granted in 2010	2010.01.01	54,858	Satisfied
Share granted in 2011	2011.01.01	142,778	Satisfied
Share granted in 2012	2012.01.01	179,905	Proportion to service period

¹ The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value are as follows:

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
(KB Financial Group Inc.)				
Series 1-4	0.22	2.78	-	37,800
Series 2-3	0.22	2.78	-	37,800
Series 3-1	0.25~1.00	2.78	-	37,117~38,564
Series 3-2	0.25~2.00	2.78	-	37,117~39,366
Series 3-3	0.25~1.00	2.78	-	37,117~38,564
Series 4-1	0.53~3.53	2.78	5,401	38,961~40,501
Series 4-2	0.53~3.53	2.78	5,874	38,961~40,501
Series 4-3	0.25~3.00	2.78	37,117	37,117~40,159
Series 4-4	0.25~3.00	2.78	37,117	37,117~40,159
Series 4-5	0.25~3.00	2.78	37,117	37,117~40,159
Series 5-1	0.25~2.00	2.78	-	37,117~39,366
Series 6-1	1.00~4.00	2.78	8,321	37,616~40,925
Series 7-1	1.00~4.00	2.78	17,835	37,616~40,925
(Kookmin Bank)				
Series 23	0.53~3.53	2.78	5,713	37,635~40,501

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Series 24	0.25~3.00	2.78	-	37,117~40,159
Series 25	0.53~3.53	2.78	5,673	37,635~40,501
Series 27	0.25~3.00	2.78	-	37,117~40,159
Series 28	0.25~3.00	2.78	-	37,117~40,159
Series 29	0.25~3.00	2.78	-	37,117~40,159
Series 31	0.25~3.00	2.78	-	37,117~40,159
Series 32	1.22~4.23	2.78	-	37,451~40,894
Series 33	0.50~4.00	2.78	5,117	37,743~40,925
Series 34	0.61~4.00	2.78	8,454	37,666~40,925
Series 35	1.00~4.00	2.78	10,764	37,616~40,925
Series 36	1.00~4.00	2.78	11,559	37,616~40,925
Series 37	1.00~4.00	2.78	17,351	37,616~40,925
Series 38	1.00~4.00	2.78	17,835	37,616~40,925
Series 39	1.00~4.00	2.78	17,591	37,616~40,925
Series 40	1.58~5.00	2.79	23,052	37,283~41,706
Series 41	1.58~5.00	2.79	23,100	37,396~41,706
Series 42	1.72~5.00	2.79	17,946	37,471~41,706
Series 43	1.90~5.00	2.80	17,739	37,363~41,706
Grant deferred in 2010	0.25~1.00	2.78	-	38,529~39,366
Grant deferred in 2011	0.25~2.00	2.78	-	38,056~39,366
Grant deferred in 2012	0.25~2.00	2.78	-	38,564~39,366
(Other subsidiaries)				
Share granted in 2010	0.25~0.65	2.78	0~37,117	37,117~37,801
Share granted in 2011	1.00~1.35	2.78~2.79	4,482~11,720	37,450~37,616
Share granted in 2012	2.00~2.54	2.80~2.82	19,787~25,616	36,989~37,291
Linked to short term performance				
(KB Financial Group Inc.)				
Share granted in 2010	0.25~1.00	2.78	-	37,117~38,564
Share granted in 2011	0.25~2.00	2.78	-	37,117~39,366
Share granted in 2012	1.00~3.00	2.78	-	38,564~40,159
(Kookmin Bank)				
Share granted in 2010	0.25~1.00	2.78	-	37,117~38,564
Share granted in 2011	0.25~2.00	2.78	-	37,117~39,366
Share granted in 2012	1.00~3.00	2.78	-	38,564~40,159

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price as of December 31, 2012, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate. The Group used the historical data of Kookmin Bank for the period before the Parent Company was incorporated.

As of December 31, 2012 and 2011, the accrued expenses related to share-based payments including share options and share grants amounted to ₩ 63,315 million and ₩ 27,236 million, respectively, and the compensation costs from share options and share grants amounts to ₩ 13,871 million for the year ended December 31, 2012 and amounting ₩ 7,609 million were reversed for the years ended December 31, 2011. There is no intrinsic value of the vested share options as of December 31, 2012 and 2011, respectively.

32. Non-operating income and expenses

The details of non-operating income and expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		2011	
Non-operating income				
Gains of disposal in property and equipment	₩	5,840	₩	313
Rent received		4,349		3,678
Others		51,328		56,580
		61,517		60,571
Non-operating expenses				
Losses of disposal in property and equipment		426		768
Donation		80,448		77,889
Restoration cost		945		1,981
Others		116,232		122,424
		198,051		203,062
Net non-operating income(expense)	₩	(136,534)	₩	(142,491)

33. Tax expense

Income tax expense for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)

	2012		2011	
Tax payable				
Current tax expense	₩	695,135	₩	816,051
Adjustments recognized in the period for current tax of prior years		18,017		3,639
		713,152		819,690
Changes in deferred income tax assets (liabilities)		(86,976)		(80,996)

(in millions of Korean won)

	2012	2011
Income tax recognized directly in equity	(76,836)	93,540
Exchange differences on translating foreign operations	-	(11)
Change in value of available-for-sale financial assets	(78,003)	46,303
Change in value of held-to-maturity financial assets	(240)	(249)
Share of other comprehensive income of associates	362	31
Cash flow hedges	1,025	241
Losses on Sale of Treasury Stock	-	47,225
Others	20	-
Tax expense	₩ 549,340	₩ 832,234

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2012 and 2011, follows:

(in millions of Korean won)

	Proportion (%)	2012	2011
Net profit before income tax		₩ 2,261,328	₩ 3,260,806
Tax at the applicable tax rate ¹	24.18	₩ 546,779	₩ 789,089
Non-taxable income	(0.28)	(6,291)	(14,325)
Non-deductible expense	0.59	13,268	16,220
Tax credit and tax exemption	(0.01)	(187)	(2,198)
Temporary difference for which no deferred tax is recognized	0.07	1,633	(2,567)
Deferred tax relating to changes in recognition and measurement	(0.32)	(7,289)	(8,459)
Income tax refund for tax of prior years	(0.88)	(19,870)	23,479
Income tax expense of overseas branch	0.75	16,929	18,308
Effects from change in tax rate	0.04	941	16,436
Others	0.15	3,427	(3,749)
Tax expense	24.29	₩ 549,340	₩ 832,234

¹ Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22% and for over ₩ 20 billion is 24.2% as of December 31, 2012. In addition, for ₩ 200 million and below is 11%, for over ₩ 200 million is 24.2% as of December 31, 2011.

The details of current tax assets (income tax refund receivables) and current tax liabilities (income tax payables), as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012		
	Tax payables (receivables) before offsetting	Offsetting	Tax payables (receivables) after offsetting
Income tax refund receivables	₩ (429,676)	₩ 415,156	₩ (14,520)
Income tax payables	679,822	(415,156)	264,666

(in millions of Korean won)

	2011		
	Tax payables (receivables) before offsetting	Offsetting	Tax payables (receivables) after offsetting
Income tax refund receivables	₩ (228,579)	₩ 216,981	₩ (11,598)
Income tax payables	805,806	(216,981)	588,825

34. Dividends

The dividends paid to the shareholders of the Parent Company in 2012 and 2011 were ₩ 278,173 million (₩720 per share) and ₩ 41,163 million (₩120 per share), respectively. The dividends to the shareholders of the Parent Company in respect of the year ended December 31, 2012, of ₩ 600 per share, amounting to total dividends of ₩ 231,811 million, is to be proposed at the annual general meeting on March 22, 2013. The Group's consolidated financial statements as of December 31, 2012, do not reflect this dividend payable.

35. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Exchange differences on translating foreign operations	₩ (1,465)	₩ (25,596)	₩ -	₩ -	₩ (27,061)
Change in value of available-for-sale financial assets	200,275	386,966	(70,478)	(78,003)	438,760
Change in value of held-to-maturity financial assets	(1,652)	671	(4)	(240)	(1,225)
Shares of other comprehensive income of associates	(4,195)	(44,491)	(48)	362	(48,372)
Cash flow hedges	(1,321)	(26,837)	25,000	1,025	(2,133)
	₩ 191,642	₩ 290,713	₩ (45,530)	₩ (76,856)	₩ 359,969

(in millions of Korean won)

	2011				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Exchange differences on translating foreign operations	₩ (6,957)	₩ 5,503	₩ -	₩ (11)	₩ (1,465)
Change in value of available-for-sale financial assets	443,389	(37,308)	(252,109)	46,303	200,275
Change in value of held-to-maturity financial assets	(2,098)	699	(4)	(249)	(1,652)
Shares of other comprehensive income of associates	(3,762)	(464)	-	31	(4,195)
Cash flow hedges	-	21,631	(23,193)	241	(1,321)
	₩ 430,572	₩ (9,939)	₩ (275,306)	₩ 46,315	₩ 191,642

36. Earnings per share

36.1 Basic earnings per share

Basic earnings per share is calculated by dividing profit and loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, excluding the treasury shares, during the years ended December 31, 2012 and 2011.

Weighted average number of ordinary shares outstanding:

(In number of shares)

	2012		
	Number of shares (a)	Days outstanding (b)	Total outstanding shares [(a) x (b)]
Beginning (A)	386,351,693	366	141,404,719,638
Weighted average number of ordinary shares outstanding [(B) =(A)/366]			386,351,693

(In number of shares)

2011			
	Number of shares (a)	Days outstanding (b)	Total outstanding shares [(a) x (b)]
Beginning (A)	386,351,693	365	141,018,367,945
Treasury shares (B)	43,322,704	13	563,195,152
	40,984,474	28	1,147,565,272
	37,463,510	42	1,573,467,420
	34,966,962	105	3,671,531,010
			6,955,758,854
Total outstanding shares [(C)=(A)-(B)]			134,062,609,091
Weighted average number of ordinary shares outstanding [(D) =(C)/365]			367,294,819

Basic earnings per share:

(in Korean won and in number of shares)

2012		
Profit attributable to ordinary shares (E)	₩	1,702,913,550,877
Weighted average number of ordinary shares outstanding (F)		386,351,693
Basic earnings per share [(G)=(E)/(F)]	₩	4,408

(in Korean won and in number of shares)

2011		
Profit attributable to ordinary shares (E)	₩	2,373,026,068,477
Weighted average number of ordinary shares outstanding (F)		367,294,819
Basic earnings per share [(G)=(E)/(F)]	₩	6,461

36.2 Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of ordinary shares outstanding which is adjusted by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares include share grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Group's outstanding shares for the period) based on the monetary value of the subscription rights attached to the share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of share grants.

Adjusted profit for diluted earnings per share:

(in Korean won)

		2012
Profit attributable to ordinary shares	₩	1,702,913,550,877
Adjustment		-
Adjusted profit for diluted earnings per share	₩	1,702,913,550,877

(in Korean won)

		2011
Profit attributable to ordinary shares	₩	2,373,026,068,477
Adjustment		-
Adjusted profit for diluted earnings per share	₩	2,373,026,068,477

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings per share:

(in number of shares)

	2012	2011
Weighted average number of ordinary shares outstanding	386,351,693	367,294,819
Adjustment		
Share grants	1,193,606	884,974
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share	387,545,299	368,179,793

Diluted earnings per share:

(in Korean won and in number of shares)

		2012
Adjusted profit for diluted earnings per share	₩	1,702,913,550,877
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		387,545,299
Diluted earnings per share	₩	4,394

(in Korean won and in number of shares)

		2011
Adjusted profit for diluted earnings per share	₩	2,373,026,068,477
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		368,179,793
Diluted earnings per share	₩	6,445

37. Insurance Contracts

37.1 Insurance liabilities

The details of insurance liabilities presented within other liabilities as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Individual insurance				
Pure Endowment insurance	₩	3,281,701	₩	2,159,534
Death insurance		63,821		54,008
Joint insurance		1,470,755		1,301,139
Group insurance		1,285		266
Other		19,604		16,489
	₩	4,837,166	₩	3,531,436

The changes in insurance liabilities for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012											
	Individual insurance			Group insurance	Other ¹	Total						
	Pure Endowment insurance	Death insurance	Joint insurance									
Beginning	₩	2,159,534	₩	54,008	₩	1,301,139	₩	266	₩	16,489	₩	3,531,436
Provision		1,122,167		9,813		169,616		1,019		3,115		1,305,730
Ending	₩	3,281,701	₩	63,821	₩	1,470,755	₩	1,285	₩	19,604	₩	4,837,166

(in millions of Korean won)

	2011											
	Individual insurance			Group insurance	Other ¹	Total						
	Pure Endowment insurance	Death insurance	Joint insurance									
Beginning	₩	1,640,681	₩	51,166	₩	1,152,599	₩	234	₩	13,496	₩	2,858,176
Provision		518,853		2,842		148,540		32		2,993		673,260
Ending	₩	2,159,534	₩	54,008	₩	1,301,139	₩	266	₩	16,489	₩	3,531,436

¹ Consists of policyholders' profit dividend reserve, reserve for compensation for losses on dividend-paying insurance contracts and others.

37.2 Insurance assets

The details of insurance assets presented within other assets as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Reinsurance assets	₩	3,751	₩	2,146
Deferred acquisition costs		151,925		126,304
	₩	155,676	₩	128,450

The changes in reinsurance assets for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Beginning	₩	2,146	₩	690
Increase (decrease)		1,605		1,456
Ending	₩	3,751	₩	2,146

The changes in deferred acquisition costs for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Beginning	₩	126,304	₩	71,407
Increase		106,959		102,476
Amortization		(81,338)		(47,579)
Ending	₩	151,925	₩	126,304

37.3 Insurance premiums and reinsurance

The details of insurance premiums for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012											
	Pure endowment insurance		Death insurance		Joint insurance		Group insurance		Others		Total	
Insurance premiums earned	₩	1,307,974	₩	19,547	₩	352,482	₩	3,967	₩	39,081	₩	1,723,051
Reinsurance premiums paid		(196)		(2,637)		(133)		(892)		(8,354)		(12,212)
Net premiums earned	₩	1,307,778	₩	16,910	₩	352,349	₩	3,075	₩	30,727	₩	1,710,839

(In millions of Korean won)

2011												
	Pure endowment insurance		Death insurance		Joint insurance		Group insurance		Others		Total	
Insurance premiums earned	₩	651,281	₩	7,073	₩	339,204	₩	1,640	₩	8,173	₩	1,007,371
Reinsurance premiums paid		(333)		(773)		(161)		(1,373)		(2,056)		(4,696)
Net premiums earned	₩	650,948	₩	6,300	₩	339,043	₩	267	₩	6,117	₩	1,002,675

The details of reinsurance transactions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012									
	Reinsurance expense				Reinsurance revenue				
	Reinsurance premium paid		Reinsurance claims		Reinsurance commission		Total		
Individual	₩	2,966	₩	1,150	₩	1,000	₩	2,150	
Group		892		1,138		-		1,138	
Others		8,354		4,127		-		4,127	
	₩	12,212	₩	6,415	₩	1,000	₩	7,415	

(in millions of Korean won)

2011									
	Reinsurance expense				Reinsurance revenue				
	Reinsurance premium paid		Reinsurance claims		Reinsurance commission		Total		
Individual	₩	1,268	₩	623	₩	674	₩	1,297	
Group		1,372		1,133		-		1,133	
Others		2,056		1,288		-		1,288	
	₩	4,696	₩	3,044	₩	674	₩	3,718	

Insurance expenses for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

2012												
	Pure endowment insurance		Death insurance		Joint insurance		Group insurance		Others		Total	
Insurance expense	₩	2,659	₩	1,637	₩	6,232	₩	2,775	₩	2,423	₩	15,726
Dividend expense		154		12		-		-		-		166
Refund expense		202,965		4,043		183,061		215		-		390,284
Provision		1,122,167		9,813		169,616		1,019		3,115		1,305,730
		1,327,945		15,505		358,909		4,009		5,538		1,711,906
Reinsurance claims		(184)		(898)		(68)		(1,138)		(4,127)		(6,415)
Net insurance expense	₩	1,327,761	₩	14,607	₩	358,841	₩	2,871	₩	1,411	₩	1,705,491

(In millions of Korean won)

	2011					
	Pure endowment insurance	Death insurance	Joint insurance	Group insurance	Others	Total
Insurance expense	₩ 2,010	₩ 670	₩ 25,201	₩ 1,663	₩ 206	₩ 29,750
Dividend expense	73	11	1	-	-	85
Refund expense	150,627	3,565	171,090	276	-	325,558
Provision	518,853	2,842	148,540	32	2,993	673,260
	671,563	7,088	344,832	1,971	3,199	1,028,653
Reinsurance claims	(106)	(433)	(84)	(1,133)	(1,288)	(3,044)
Net insurance expense	₩ 671,457	₩ 6,655	₩ 344,748	₩ 838	₩ 1,911	₩ 1,025,609

37.4 Insurance risk

Summary of insurance risk

Insurance risk is the risk of loss arising from the actual risk at the time of claims exceeding the estimated risk at the time of underwriting. Insurance risk is classified by insurance price risk and policy reserve risk.

Insurance price risk is the risk of loss arising from differences between premiums from policyholders and actual claims paid.

Policy reserve risk is the risk of loss arising from differences between policy reserves the Group holds and actual claims to be paid.

Concentration of insurance risk and reinsurance policy

The Group uses reinsurance with the intent to expand the ability of underwriting insurance contracts through mitigating the exposure to insurance risk, and generates synergy by joint development of products, management discipline and collecting information on foreign markets.

The Group cedes reinsurance for mortality, illness and other risks arising from insurance contracts where the Group has little experience for a necessary period of time required to accumulate experience.

The Group's Reinsurance is ceded through the following process:

- i. In the decision-making process of launching a new product, the Group makes a decision on ceding reinsurance. Subsequently, a reinsurer is selected through bidding, agreements with the relevant departments and final approval by the executive management.
- ii. The reinsurance department analyzes the object of reinsurance, the maximum limit of reinsurance and the loss ratio with the relevant departments.

The characteristic and exposure of insurance price risk

The insurance risk of a life insurance company is measured by insurance price risk. As the life insurance coverage is in form of a fixed payment, the fluctuation of policy reserve is small and the period from insured event to claims payment is not long, the policy reserve risk is managed by assessments of adequacy of the policy reserve.

The Group measures the exposure of insurance price risk as the shortfall of the risk premiums received compared to the claims paid on all insurance contracts for the last 12 months preceding the reporting date.

The maximum exposure of premium risk as of December 31, 2012 and 2011, follows:

(in millions of Korean won)

	2012			
	Before reinsurance mitigation		After reinsurance mitigation	
Mortality	₩	8,016	₩	5,905
Disability		509		176
Hospitalization		821		507
Operation and diagnosis		1,914		911
Actual losses for medical expense		121		43
Other		86		66
	₩	11,467	₩	7,608

(in millions of Korean won)

	2011			
	Before reinsurance mitigation		After reinsurance mitigation	
Mortality	₩	5,091	₩	3,068
Disability		633		485
Hospitalization		676		509
Operation and diagnosis		1,162		908
Actual losses for medical expense		60		32
Other		84		65
	₩	7,706	₩	5,067

Average ratios of claims paid per risk premium received on the basis of exposure before mitigation for the past three years as of December 31, 2012 and 2011, were 68% and 68%, respectively.

The exposure of market risk arising from embedded derivatives included in host insurance contracts as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012				2011			
	Policyholders reserve		Guarantee reserve		Policyholders reserve		Guarantee reserve	
Variable annuity	₩	524,903	₩	3,937	₩	459,174	₩	3,444
Variable universal		117,397		59		70,533		35
	₩	642,300	₩	3,996	₩	529,707	₩	3,479

Premium reserves and unearned premium reserves classified based on each residual maturity as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012						
	Lower than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 Years or more	Total
Premium reserves	₩ 156,070	₩ 276,101	₩ 1,615,643	₩ 270,973	₩ 345,853	₩ 2,109,936	₩ 4,774,576
Unearned premium reserves	741	-	2	-	2	4	749

(in millions of Korean won)

	2011						
	Lower than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 Years or more	Total
Premium reserves	₩ 67,027	₩ 213,331	₩ 1,198,711	₩ 294,585	₩ 319,018	₩ 1,389,754	₩ 3,482,426
Unearned premium reserves	35	-	2	-	2	4	43

38. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2012 and 2011, follows:

(in millions of Korean won)

	2012		2011	
	Total assets	Operating revenues	Total assets	Operating revenues ¹
Consolidated	₩ 27,844	₩ 4,325	₩ 28,505	₩ 4,139
Non-consolidated	41,600,085	3,321,017	46,181,817	2,402,180
	₩ 41,627,929	₩ 3,325,342	₩ 46,210,322	₩ 2,406,319

¹ Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant transactions between the Group and the trust accounts for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Revenues				
Fees and commissions from trust accounts	₩	171,746	₩	165,772
Interest income from loans on trust accounts		16,071		9,327
Commissions from early termination in trust accounts		157		226
		187,974		175,325
Expenses				
Interest expenses due to trust accounts		54,911		59,891
Assets				
Accrued trust fees		33,900		37,418
Due from trust accounts		206,138		264,211
		240,038		301,629
Liabilities				
Due to trust accounts		2,115,603		1,918,766
Accrued interest on due to trust accounts		4,264		6,204
	₩	2,119,867	₩	1,924,970

As of December 31, 2012 and 2011, the carrying amounts of the trust accounts for which the Group guarantees payment of principal are as follows:

(In millions of Korean won)

	2012		2011	
Old age pension	₩	4,089	₩	5,267
Personal pension		1,729,349		1,715,696
Pension trust		1,344,484		1,183,155
Retirement trust		25,136		132,823
New personal pension		83,303		82,493
New old age pension		10,283		12,963
	₩	3,196,644	₩	3,132,397

¹ The carrying amount of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, Trust Accounts, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

As of December 31, 2012 and 2011, there is no amount the Group has to pay in relation to the management results of the trust accounts in accordance with the guarantees of payment of principal.

39. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Cash	₩	2,041,649	₩	1,840,829
Checks with other banks		808,461		781,269
Due from Bank of Korea		3,215,181		3,942,158
Due from other financial institutions		4,503,059		2,613,869
		10,568,350		9,178,125
Restricted due from financial institutions		(3,642,713)		(4,171,213)
Due from financial institutions with original maturities over three-months		(361,914)		(266,108)
		(4,004,627)		(4,437,321)
	₩	6,563,723	₩	4,740,804

Significant non-cash transactions for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Decrease in loans due to the write-offs	₩	2,197,135	₩	2,181,414
Changes in other comprehensive income due to valuation of investment securities		249,647		(242,668)
Increase in available-for-sale financial assets from debt-equity swap		1,388		1,914

Cash inflow and outflow from income tax, interest and dividends for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	Activity	2012		2011	
Income tax paid (refund)	Operating	838,073	₩	(121,533)	
Interest received	Operating	14,434,239		14,384,913	
Interest paid	Operating	7,158,510		6,830,541	
Dividends received	Operating	91,587		98,212	
Dividends paid	Financing	278,173		41,163	
Dividends paid on hybrid capital instrument	Financing	-		46,331	

Cash flows generated by business combination

As of the acquisition date, the Group acquired cash and cash equivalents amounting to ₩ 40,575 million through the purchase & assumption(P&A) deal for selected assets and liabilities of Jeil Savings Bank Co., Ltd., and no consideration was transferred.

40. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012	2011
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for corporate purchasing card	₩ 17	₩ 70,134
Acceptances and guarantees for KB purchasing loan	546,480	684,445
Bid bond	-	402
Performance bond	-	649
Other acceptances and guarantees	1,017,631	849,537
	1,564,128	1,605,167
Confirmed acceptances and guarantees in foreign currency		
Acceptances of letter of credit	204,764	411,145
Letter of guarantees	66,535	57,903
Bid bond	85,228	41,721
Performance bond	529,088	437,046
Refund guarantees	2,172,006	3,025,855
Other acceptances and guarantees	552,015	268,391
	3,609,636	4,242,061
Financial guarantees		
Acceptances and guarantees for debentures	-	208
Acceptances and guarantees for mortgage	45,123	57,079
Financial guarantees	-	20,000
Overseas debt guarantees	238,670	244,929
International financing guarantees in foreign currencies	21,422	-
	305,215	322,216
	5,478,979	6,169,444
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	3,326,326	4,023,393
Refund guarantees	918,191	1,672,063
	4,244,517	5,695,456
	₩ 9,723,496	₩ 11,864,900

Acceptances and guarantees by counter party as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012							
	Confirmed guarantees		Unconfirmed guarantees		Total	Proportion (%)	
Corporations	₩	4,237,305	₩	2,450,719	₩	6,688,024	68.78
Small companies		1,185,994		763,254		1,949,248	20.05
Public and others		55,680		1,030,544		1,086,224	11.17
	₩	5,478,979	₩	4,244,517	₩	9,723,496	100.00

(in millions of Korean won)

2011							
	Confirmed guarantees		Unconfirmed guarantees		Total	Proportion (%)	
Corporations	₩	4,571,010	₩	2,954,567	₩	7,525,577	63.43
Small companies		1,505,137		1,005,318		2,510,455	21.16
Public and others		93,297		1,735,571		1,828,868	15.41
	₩	6,169,444	₩	5,695,456	₩	11,864,900	100.00

Acceptances and guarantees by industry as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

2012							
	Confirmed guarantees		Unconfirmed guarantees		Total	Proportion (%)	
Financial institutions	₩	92,037	₩	8,610	₩	100,647	1.04
Manufacturing		3,262,542		2,198,617		5,461,159	56.16
Service		389,831		33,815		423,646	4.36
Whole sale & Retail		924,602		725,224		1,649,826	16.97
Construction		754,876		284,448		1,039,324	10.69
Public sector		20,650		972,777		993,427	10.22
Others		34,441		21,026		55,467	0.56
	₩	5,478,979	₩	4,244,517	₩	9,723,496	100.00

(in millions of Korean won)

	2011						
	Confirmed guarantees		Unconfirmed guarantees		Total	Proportion (%)	
Financial institutions	₩	75,048	₩	5,176	₩	80,224	0.68
Manufacturing		4,196,612		2,884,922		7,081,534	59.68
Service		162,960		49,197		212,157	1.79
Whole sale & Retail		991,023		858,189		1,849,212	15.59
Construction		639,406		177,030		816,436	6.88
Public sector		58,129		1,663,052		1,721,181	14.51
Others		46,266		57,890		104,156	0.87
	₩	6,169,444	₩	5,695,456	₩	11,864,900	100.00

Commitments as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Commitments				
Corporate loan commitments	₩	40,770,994	₩	36,365,468
Retail loan commitments		14,348,821		14,632,998
Credit line on credit cards		36,214,899		39,070,550
Private placement commitments		80,000		-
Private indirect reinvestment trusts for the stabilization of bond markets		1,778,767		1,674,926
Purchase of other security investment		93,193,481		91,743,942
Financial Guarantees				
Credit line		1,141,554		471,951
Purchase of security investment		163,500		151,000
		1,305,054		622,951
	₩	94,498,535	₩	92,366,893

Other Matters (including litigation)

a) The Group has filed 93 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), involving aggregate claims of ₩ 898,300 million, and faces 322 lawsuits (as the defendant) (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 439,568 million, which arose in the normal course of the business and are still pending as of December 31, 2012.

Meanwhile, several customers of Kookmin Bank filed lawsuits against Kookmin Bank claiming a refund of fees for putting up fixed collateral as of December 31, 2012. One lawsuit is on its second trial, while the court ruled in favor of Kookmin Bank during the first trial. The others are on their first trial. A relatively low probability of an outflow of resources is expected in relation to the outcome of the lawsuits.

b) According to the shareholders' agreement on September 25, 2009, among Kookmin Bank, the International Finance Corporation ("IFC") and the remaining shareholders, Kookmin Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between Kookmin Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013, to February 24, 2017. However, if the put trigger event defined in the shareholders' agreement occurs, and consequently, if a put notice is delivered to Kookmin Bank within 60 days from the date when IFC recognizes such event, IFC may also exercise its put option at any time after February 24, 2010.

c) The face value of the securities sold to general customers through tellers' sale amounts to ₩ 116,633 million and ₩ 142,145 million as of December 31, 2012 and 2011, respectively.

d) Kookmin Bank underwent a tax investigation by the Seoul Regional Tax Office and in early 2007 was assessed additional corporate tax including local income tax of ₩ 482,755 million. Kookmin Bank paid this amount to the Tax authorities. Subsequently, Kookmin Bank filed a claim for adjudication in August 2007 for repayment of the amount of ₩ 482,643 million. Of this amount, ₩ 117,135 million has been refunded to Kookmin Bank following a successful appeal to the National Tax Tribunal and administrative litigations. Further, a portion of the claim amounting to ₩ 970 million has been extinguished following litigation. Meanwhile, the claim for a refund of ₩ 364,538 million, specifically related to the merger of Kookmin Card Co., Ltd. was ruled in favor of Kookmin Bank in an original case on April 1, 2011, and in a second trial at the Seoul High Court on January 12, 2012. The ruling has been appealed by the Tax authorities to the Supreme Court, where it is currently pending third trial as of December 31, 2012.

41. Asset-backed securitization

The Group issued debentures secured by certain transferred assets.

The details of debentures which are secured by loans and other financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

	2012					
	Interest rates (%)	Expiration date	Senior debentures	Underlying assets		
				Loans	Securities	
KB Mortgage Loan 1st Securitization Specialty Co., Ltd. ¹	1.29	2039-12-08	₩ 249,668	₩ 361,702	₩	-
KAMCO Value Recreation 3th Securitization Specialty Co., Ltd. ²	10.73	2014-06-30	3,258	19,000		-
KB Kookmin Card First Securitization Co., Ltd. ¹	LIBOR+0.48	2014-11-26	321,330	601,924		-
Wise Mobile First Securitization Specialty	2.90~3.17	2015-09-07	570,000	533,936		-
			1,144,256	1,516,562		-
Premiums(discounts) on debentures			(2,495)	-		-
			₩ 1,141,761	₩ 1,516,562	₩	-
	(in millions of Korean won)					
	2011					
	Interest rates (%)	Expiration date	Senior debentures	Underlying assets		
				Loans	Securities	
KB Mortgage Loan 1st Securitization Specialty Co., Ltd. ¹	2.57	2039-12-08	₩ 335,169	₩ 434,376	₩	-
KAMCO Value Recreation 3th Securitization Specialty Co., Ltd. ²	5.16	2012-10-09	3,258	19,000		-
New Star 1st Co., Ltd. ³	5.05	2012-01-18	50,000	-		50,218
KB Kookmin Card First Securitization Co., Ltd. ¹	LIBOR+0.48	2014-11-26	345,990	616,089		-
			734,417	1,069,465		50,218
Premiums(discounts) on debentures			(2,566)	-		-
			₩ 731,851	₩ 1,069,465	₩	50,218

¹ Included in the floating rate debentures in foreign currencies (Note 22).

² Included in the floating rate debentures in Korean won (Note 22).

³ Included in the fixed rate debentures in Korean won (Note 22).

42. The Subsidiaries

The details of subsidiaries as of December 31, 2012, are as follows:

Investor	Investee	Ownership interests(%)	Location	financial Date of information	Industry
KB Financial Group Inc.	Kookmin Bank	100.00	Korea	Dec. 31	Banking and domestic, foreign exchange transaction
	KB Kookmin Card Co., Ltd.	100.00	Korea	Dec. 31	Credit card
	KB Investment & Securities Co., Ltd.	100.00	Korea	Dec. 31	Financial investment
	KB Life Insurance Co., Ltd.	51.00	Korea	Dec. 31	Life insurance
	KB Asset Management Co., Ltd.	100.00	Korea	Dec. 31	Security investment trust management and advisory
	KB Real Estate Trust Co., Ltd.	100.00	Korea	Dec. 31	Real estate trust management
	KB Investment Co., Ltd.	100.00	Korea	Dec. 31	Investment in small company
	KB Credit Information Co., Ltd.	100.00	Korea	Dec. 31	Collection of receivables or credit investigation
	KB Data System Co., Ltd.	100.00	Korea	Dec. 31	Software advisory, development, and supply
Kookmin Bank	KB Savings Bank Co., Ltd.	100.00	Korea	Dec. 31	Savings banking
	Kookmin Bank Int'l Ltd. (London)	100.00	United Kingdom	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank Cambodia PLC.	92.44	Cambodia	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank (China) Ltd.	100.00	China	Dec. 31	Banking and foreign exchange transaction
	Principal & interest guaranteed trust ¹	-	Korea	Dec. 31	Trust
	KB Mortgage Loan First Securitization Specialty Co., Ltd. and 6 others ¹	-	Korea and others	Dec. 31	Asset-backed securitization
Kookmin Bank, KB Investment Co., Ltd.	KB Evergreen Private Securities ²⁶ and 25 others ¹	100.00	Korea	Dec. 31	Private equity fund
	KB06-1 Venture Investment	75.00	Korea	Dec. 31	Capital investment
	KB08-1 Venture Investment	100.00	Korea	Dec. 31	Capital investment
KB Asset Management Co., Ltd.	KB12-1 Venture Investment	100.00	Korea	Dec. 31	Capital investment
	KB Wellyan Private Equity Real Estate Fund No. 6	95.67	Korea	Dec. 31	Investment fund
	KB Wellyan Private Equity Real Estate Fund No. 7	47.97	Korea	Dec. 31	Investment fund
	Boyoung construction	-	Korea	Dec. 31	Construction

Investor	Investee	Ownership interests(%)	Location	financial Date of information	Industry
KB Investment Co., Ltd.	NPS 07-5 KB Venture Fund ²	20.00	Korea	Dec. 31	Capital investment
	09-5 KB Venture Fund ²	33.33	Korea	Dec. 31	Capital investment
	NPS KBIC Private Equity Fund No. 1 ³	2.56	Korea	Dec. 31	Capital investment
	KoFC-KB Pioneer Champ No.2010-8 Investment Partnership ²	50.00	Korea	Dec. 31	Capital investment
	KBIC Private Equity Fund No. 3 ³	2.00	Korea	Dec. 31	Capital investment
	2011 KIF-KB IT Venture Fund ²	43.33	Korea	Dec. 31	Capital investment
	KoFC-KB Young Pioneer 1st Fund ²	33.33	Korea	Dec. 31	Capital investment
KB Investment & Securities	KB-Glenwood Private Equity Fund 1 ³	0.03	Korea	Dec. 31	Capital investment
	New Star 1st. Ltd. ¹	-	Korea	Dec. 31	Asset-backed securitization
KB-Glenwood Private Equity Fund 1	Chungkang Co., Ltd. ¹	100.00	Korea	Dec. 31	Capital investment
Chungkang Co., Ltd.	Powernet Technologies Co., Ltd.	92.64	Korea	Dec. 31	Electronic product manufacturing
KB Kookmin Card Co., Ltd	KB Kookmin Card First Securitization Co., Ltd. ¹	-	Korea	Dec. 31	Asset-backed securitization
	Wise Mobile First Securitization Specialty ¹	-	Korea	Dec. 31	Asset-backed securitization
KB Life Insurance Co., Ltd.	GS Focus and Concentrate Private Equity Fund No.3 and 6 others ¹	100.00	Korea	Dec. 31	Private equity fund
KB Investment & Securities, KB Asset Management Co., Ltd.	KB K-Alpha private equity trust ¹	80.00	Korea	Dec. 31	Investment trust
Kookmin Bank, KB Investment & Securities, KB life Insurance, KB Real Estate Trust Co., Ltd	KB Wise Star Private Real Estate Feeder Fund 1st. ¹	100.00	Korea	Dec. 31	Investment trust

¹ The activities of entities, decision-making powers and benefits and risks are considered when special purpose entities are consolidated.

² Consolidated because the Group controls the entities as an executive member.

³ Consolidated because the Group controls the entities as a general partner.

The condensed financial information of major subsidiaries as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011, follows:

(In millions of Korean won)

	2012					
	Assets	Liabilities	Equity	Operating income (revenue)	Profit(loss) for the year	Total comprehensive income(loss) for the year
Kookmin Bank ¹	₩ 257,748,697	₩ 237,791,142	₩ 19,957,555	₩ 19,273,344	₩ 1,416,142	₩ 1,555,163
KB Kookmin Card Co., Ltd. ¹	14,046,174	10,966,541	3,079,633	2,921,167	291,592	297,423
KB Investment & Securities Co., Ltd. ¹	3,357,196	2,812,067	545,129	1,083,947	18,741	22,610
KB Life Insurance Co., Ltd. ¹	5,987,928	5,594,727	393,201	1,944,103	16,606	38,514
KB Asset Management Co., Ltd.	164,595	37,555	127,040	89,541	35,885	36,933
KB Real Estate Trust Co., Ltd.	201,572	35,363	166,209	52,021	21,446	21,565
KB Investment Co., Ltd. ¹	504,480	381,038	123,442	39,878	5,474	7,379
KB Credit Information Co., Ltd.	30,422	7,631	22,791	58,584	331	331
KB Data System Co., Ltd.	25,519	10,761	14,758	78,021	(1,461)	(1,461)
KB Savings Bank Co., Ltd.	646,674	510,254	136,420	62,237	(34,860)	(34,616)

(In millions of Korean won)

	2011					
	Assets	Liabilities	Equity	Operating income (revenue)	Profit(loss) for the year	Total comprehensive income(loss) for the year
Kookmin Bank ¹	₩ 256,512,260	₩ 237,443,855	₩ 19,068,405	₩ 22,274,350	₩ 2,047,881	₩ 1,601,009
KB Kookmin Card Co., Ltd. ¹	13,349,351	10,567,141	2,782,210	2,426,030	319,794	328,188
KB Investment & Securities Co., Ltd. ¹	3,314,875	2,792,356	522,519	787,354	28,169	37,732
KB Life Insurance Co., Ltd. ¹	4,515,809	4,161,121	354,688	1,220,799	18,572	24,842
KB Asset Management Co., Ltd.	177,691	57,612	120,079	83,855	(5,655)	(5,603)
KB Real Estate Trust Co., Ltd.	251,228	106,584	144,644	51,564	15,405	15,512
KB Investment Co., Ltd. ¹	498,506	382,444	116,062	61,574	9,322	10,360
KB Credit Information Co., Ltd.	30,529	8,069	22,460	54,874	(2,391)	(2,391)
KB Data System Co., Ltd.	30,590	14,370	16,220	117,467	2,148	2,148

¹ Financial information is based on its consolidated financial statements.

Kookmin Bank

Kookmin Bank engages in the banking business in accordance with Banking Act, trust business in accordance with Capital Market and Financial Investment Business Act and other relevant businesses. As of December 31, 2012, Kookmin Bank has 1,193 domestic branches and offices and five overseas branches (excluding four subsidiaries and three offices). Kookmin Bank's share capital as of December 31, 2012, is ₩ 2,021,896 million.

KB Kookmin Card Co., Ltd.

KB Kookmin Card Co., Ltd. (the "KB Kookmin Card") was established upon spin off of Kookmin Bank's credit card business segment in March 2011, to engage in the credit card business under the Act on Registration of Credit Business and Protection of Finance Users and other related business. Its headquarters are located in Seoul. KB Kookmin Card's share capital as of December 31, 2012, is ₩ 460,000 million.

KB Investment & Securities Co., Ltd.

KB Investment & Securities Co., Ltd. (the "KB Investment & Securities") was established on August 16, 1995, to engage in financial investment business services including investment trading services and brokerage services and in other related services in accordance with the Capital Market and Financial Investment Business Act. On March 11, 2008, the former Hannuri Investment & Securities changed its name to KB Investment & Securities. KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. on March 12, 2011. Its headquarters are located in Seoul. KB Investment & Securities' share capital as of December 31, 2012, is ₩ 157,942 million.

KB Life Insurance Co., Ltd.

KB Life Insurance Co., Ltd. (the "KB Life Insurance") was established on April 29, 2004, to engage in financial insurance operations. On May 31, 2004, the company merged with Hanil Life Insurance Co., Ltd., undertaking all the insurance contracts and related assets and liabilities. The life insurance business under the Insurance Business Act is one of the company's major business operations. Its headquarters are located in Seoul. KB Life Insurance's share capital as of December 31, 2012, is ₩ 276,000 million.

KB Asset Management Co., Ltd.

KB Asset Management Co., Ltd. (the "KB Asset Management") was established on April 1988 to engage in investment advisory services including consulting and providing information on investments in securities. On July 1997, it started to engage in collective investment businesses (previously known as security investment trust operations) under the Capital Market and Financial Investment Business Act (previously called the Security Investment Trust Business Act). Its headquarters are located in Seoul. KB Asset Management's share capital as of December 31, 2012, is ₩ 38,338 million.

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 services including land trust. Under the Capital Market and Financial Investment Business Act (previously called the Trust Business Act), the Financial Services Commission authorized the company to engage in real estate trust service. On September 16, 2002, the name of the company changed to KB Real Estate Trust Co., Ltd. from Joeeun Real Estate Trust Inc. Its headquarters are located in Seoul. KB Real Estate Trust's share capital as of December 31, 2012, is ₩ 80,000 million.

KB Investment Co., Ltd.

KB Investment Co., Ltd. (the “KB Investment”) was established on March 27, 1990, to provide services to small startup companies. Its main business is to invest in venture companies and small startup companies, and to organize startup investment cooperatives and private equity funds. On April 3, 1990, the company, under Section 7 of the Support for Small and Medium Enterprise Establishment Act, was listed on the Small Business Administration as a small startup business investment organization. KB Investment purchases impaired loans, invests in companies under debt restructuring process, and sells reorganized companies after normalization. In March 2001, the company, under the Industrial Development Act, registered as a Corporate Restructuring Company in the Ministry of Knowledge Economy. As approved by its shareholders on June 25, 2009, its name was changed to KB Investment Co., Ltd. Its headquarters are located in Seoul. KB Investment’s share capital as of December 31, 2012, is ₩ 44,759 million.

KB Credit Information Co., Ltd.

KB Credit Information Co., Ltd. (the “KB Credit Information”) was established on October 9, 1999, under the Credit Information Protection Act to engage in loan collection services and credit research services. On May 2, 2002, the company merged with KM Credit Information Inc. to improve management of subsidiaries. As approved by its shareholders on October 28, 2002, its name was changed from Kookeun Credit Information Co., Ltd. to KB Credit Information Co., Ltd. Its headquarters are located in Seoul. KB Credit Information’s share capital as of December 31, 2012, is ₩ 6,262 million.

KB Data Systems Co., Ltd.

KB Data Systems, Co., Ltd. (the “KB Data Systems”) was established on September 1991 to engage in computer system development and its sales, system maintenance, and information technology outsourcing services. Its headquarters are located in Seoul. KB Data Systems’ share capital as of December 31, 2012, is ₩ 8,000 million.

KB Savings Bank Co., Ltd.

KB Savings Bank Co., Ltd. (the “KB Savings Bank”) was established on January 2012, signed a purchase & assumption(P&A) deal for selected assets and liabilities of Jeil Savings Bank Co., Ltd. and acquired the assets and liabilities on January 13, 2012. KB Savings Bank operates its business mainly in loan, bill discounting and depository business under the Mutual Savings Banks Act. Its headquarters are located in Seoul. KB Savings Bank’ share capital as of December 31, 2012, is ₩ 34,000 million.

Kookmin Bank Int’l Ltd.(London)

Kookmin Bank Int’l Ltd.(London) was established in November 1991 and operates its businesses mainly in general banking, trading finance, foreign currency exchange, and derivatives. Its name was changed from Korea Long Term Credit Bank Int’l Ltd. to Kookmin Bank Int’l Ltd.(London) when the Bank merged with Korea Long Term Credit Bank in January 1999. The headquarters are located in London, England. Kookmin Bank Int’l Ltd.(London)’s share capital as of December 31, 2012, is USD 30,392,000.

Kookmin Bank Hong Kong Ltd.

Kookmin Bank Hong Kong Ltd. was established in July 1995 and operates its businesses in general banking and trading finance. The headquarters are located in Hong Kong. Kookmin Bank Hong Kong Ltd.’s share capital as of December 31, 2012, is USD 20,000,000.

Kookmin Bank Cambodia PLC.

Kookmin Bank acquired 51% of ownership in Kookmin Bank Cambodia PLC. in May 2009.

As of December 31, 2012, Kookmin Bank owns 92.44% through its participation in paid-in capital increase in December 2010 and the additional acquisition of equity interests for a purchase consideration of ₩ 8,048 million in July 2012. In particular, Kookmin Bank Cambodia PLC. mainly operates lending, borrowing, foreign currency exchange services, and other ordinary banking business. The carrying amount of the non-controlling interests in Kookmin Bank Cambodia PLC on the date of acquisition was ₩ 8,364 million. Kookmin Bank derecognized non-controlling interests of ₩ 7,013 million and recorded a decrease in equity attributable to owners of the parent of ₩ 1,035 million. The headquarters are located in Phnom Penh, Cambodia. Kookmin Bank Cambodia PLC.'s paid-in capital as of December 31, 2012, is USD 16,000,000.

Kookmin Bank (China) Ltd.

Kookmin Bank (China) Ltd. was established in November 19, 2012, and operates its businesses in general banking and trading finance. The Group established Corporation Limited by integrating local branches in China, Beijing, Harbin, Suzhou, Guangzhou. The Group owns 100% of ownership. The headquarters are located in Beijing, China. Kookmin Bank (China) Ltd.'s share capital as of December 31, 2012, is USD 383,874,937.

Special Purpose Entities(SPEs)

Subsidiaries are all entities (including SPEs) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. However, there are some cases where the Group may still control some entities, mostly SPEs, with less than one half of the voting rights for a single, well-defined, and narrow purpose. SPEs may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor.

The Group consolidates an SPE when, in substance, the Group controls the SPE as follows:

- In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the Group obtains benefits from the SPE's operations;
- In substance, the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- In substance, the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The types of SPEs include asset-backed securitization specialty companies, project financing companies, private equity funds, and partnerships. The business activities of SPEs are the asset-backed securitization, providing lines of credit and loans, investing in equity shares and managing assets.

Changes in subsidiaries

GS Focus and Concentrate Private Equity Fund No.3 and 27 other private equity funds, KB Wise Star Private Real Estate Feeder Fund No.1 and 1 other investment trust, KB12-1 Venture Investment, KB Wellyan Private Equity Real Estate Fund No. 6 and 2 other investment fund, Wise Mobile First Securitization Specialty are newly included in the consolidation. Hanwha Private Securities Investment Trust 25 and 24 other private equity funds, NPS 05-6 KB Venture Fund and 1 other Venture fund have been excluded from consolidation because these were liquidated. In January 2012, the Group established KB Savings Bank Co., Ltd. and Kookmin Bank(China) Ltd.

43. Finance/Operating Lease

43.1 Finance lease

The future minimum lease payments arising as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Net Carrying amount of finance lease assets	₩	16,856	₩	18,477
Minimum lease payment				
Within 1 year		2,310		754
1-5 years		1,427		637
		3,737		1,391
Present value of minimum lease payment				
Within 1 year		2,163		697
1-5 years		1,386		601
		3,549		1,298
Contingent rent		-		-
Minimum sublease payment		-		-

43.2 Operating lease

43.2.1 Operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Minimum lease payment				
Within 1 year	₩	118,287	₩	104,327
1-5 years		102,855		79,970
Over 5 years		42,816		1,287
		263,958		185,584
Minimum sublease payment		(154)		(15)

The lease payment reflected in profit or loss for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

Lease payment reflected in profit or loss	2012		2011	
Minimum lease payment	₩	201,450	₩	188,854
Contingent rent		-		4
Sublease payment		(165)		(53)
	₩	201,285	₩	188,805

43.2.2 Operating lessor

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012		2011	
Minimum lease payment				
Within 1 year	₩	2,028	₩	2,081
1-5 years		443		826
Over 5 years		-		-
		2,471		2,907
Minimum sublease payment		-		-

44. Related Party Transactions

Significant transactions with related parties for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

		2012									
		Gain on sale of loans	Interest income and others	Provision (reversal)	Loss on sale of loans	Interest expense and others					
Associates	Korea Credit Bureau Co., Ltd.	₩	-	₩	3	₩	-	₩	-	₩	143
	UAMCO., Ltd.		-		297		(68)		93,266		-
	KB Global Star Game & Apps SPAC		-		139		-		-		430
	United PF 1 st Recovery Private Equity Fund		1,900		500		(7)		-		28
	Testian Co., Ltd.		-		104		(15)		-		-
	Semiland Co., Ltd.		-		17		(4)		-		-
	Powerrex Corporation Co., Ltd.		-		-		-		-		-
	Sehwa Electronics Co., Ltd.		-		35		-		-		153
	Serit Platform Co., Ltd.		-		105		4		-		-
	DS Plant Co., Ltd.		-		315		(16)		-		3
	CH Engineering Co., Ltd.		-		-		(106)		-		-
	Evalley Co., Ltd.		-		-		(77)		-		-
	PyungJeon Industries Co.,LTD.		-		-		343		-		-
	Kores Co., Ltd.		-		326		325		-		-
	Joam Housing Development Co., Ltd.		-		-		-		-		1
	IlssanElecom(Shenyang) Co., Ltd.		-		-		330		-		-
	Qingdao Danam Electronics Co., Ltd.		-		-		159		-		-
	KB GwS Private Equity Fund		-		12,978		-		-		-
Joint venture	Burrill-KB Life Science Fund		-		-		-		-		-
Key management			-		276		(1)		-		167
Other	Retirement pension		-		415		-		-		1,699
		₩	1,900	₩	15,510	₩	867	₩	93,266	₩	2,624

(In millions of Korean won)

		2011									
		Gain on sale of loans		Interest income and others		Provision (reversal)		Loss on sale of loans		Interest expense and others	
Associates	Korea Credit Bureau Co., Ltd.	₩	-	₩	-	₩	-	₩	-	₩	168
	UAMCO., Ltd.		13,455		1,196		(3)		40,879		3
	KB Global Star Game & Apps SPAC		-		1,443		-		-		36
	Testian Co., Ltd.		-		24		8		-		-
	United PF 1 st Recovery Private Equity Fund		30,722		-		-		-		-
	JSC Bank CenterCredit		-		-		-		-		218
	Semiland Co., Ltd.		-		17		(3)		-		1
	Powerrex Corporation Co., Ltd.		-		74		(104)		-		1
	Sehwa Electronics Co., Ltd.		-		21		-		-		19
	Serit Platform Co., Ltd.		-		85		26		-		-
	DS Plant Co., Ltd.		-		376		39		-		-
Joint venture	Burrill-KB Life Science Fund		-		-		-		-		17
Key management			-		397		(1)		-		193
Other	Retirement pension		-		199		-		-		898
		₩	44,177	₩	3,832	₩	(38)	₩	40,879	₩	1,554

The details of receivables and payables, and related allowances for loans losses arising from the related party transactions as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

		2012					
		Receivables		Allowances for loan losses		Payables	
Associates	Korea Credit Bureau Co., Ltd.	₩	-	₩	-	₩	18,049
	UAMCO., Ltd.		-		-		198
	KB Global Star Game & Apps SPAC		2,627		-		899
	Testian Co., Ltd.		413		14		-
	United PF 1 st Recovery Private Equity Fund		2,809		5		161
	Semiland Co., Ltd.		-		-		4
	Joam Housing Development Co., Ltd.		-		-		236
	Sehwa Electronics Co., Ltd.		-		-		165
	Serit Platform Co., Ltd.		769		80		48
	DS Plant Co., Ltd.		4,232		44		50
	PyungJeon Industries Co.,LTD.		2,125		1,055		1

(In millions of Korean won)

		2012		
		Receivables	Allowances for loan losses	Payables
Associates	Kores Co., Ltd.	7,854	3,872	3
	IlssanElecom(Shenyang) Co., Ltd.	460	460	228
	Qingdao Danam Electronics Co., Ltd.	550	209	338
Key management		5,747	21	9,013
Other	Retirement pension	195	-	51,417
		₩ 27,781	₩ 5,760	₩ 80,810

(In millions of Korean won)

		2011		
		Receivables	Allowances for loan losses	Payables
Associates	Korea Credit Bureau Co., Ltd.	₩ -	₩ -	₩ 12,575
	UAMCO., Ltd.	38,745	68	146
	JSC Bank CenterCredit	-	-	23,066
	KB Global Star Game & Apps SPAC	2,488	-	21,766
	Testian Co., Ltd.	632	29	-
	United PF 1 st Recovery Private Equity Fund	6,761	12	154
	Semiland Co., Ltd.	151	4	114
	Joam Housing Development Co., Ltd.	-	-	58
	Powerrex Corporation Co., Ltd.	-	-	10
	Sehwa Electronics Co., Ltd.	38	-	649
	Serit Platform Co., Ltd.	768	76	17
	DS Plant Co., Ltd.	3,167	54	97
	IlssanElecom(Shenyang) Co., Ltd.	130	130	-
	Qingdao Danam Electronics Co., Ltd.	50	50	-
Key management		7,359	33	5,492
Other	Retirement pension	225	-	37,226
		₩ 60,514	₩ 456	₩ 101,370

According to K-IFRS 1024, the Group includes subsidiaries, associates, key management (including family members), and post-employment benefit plans of the Group in the scope of related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the Parent Company and the directors of Kookmin Bank and companies where the directors and their close family members have the power to influence the decision-making process. The Group recognized receivables amounting to ₩ 7,359 million and related allowances for loan losses amounting to ₩ 33 million as of December 31, 2011, from the transactions with key management. Of those respective amounts, receivables amounting to ₩ 1,423 million and related allowance for loan loss amounting to ₩ 21 million, are from companies where key management has a power to influence the decision-making process.

Commitments to related parties as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

		2012	2011
UAMCO., Ltd.	Loan commitments in Korean won	₩ 127,800	₩ 89,077
	Purchase of security investment	89,950	89,950
United PF 1 st Recovery Private Equity Fund	Loan commitments in Korean won	106,395	102,443
	Purchase of security investment	49,383	-
Sehwa Electronics Co., Ltd. and others	Loan commitments	2,899	2,891
	Others	88,151	17,245

Compensation to key management for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)

	2012				
	Short-term employee benefits	Post-employment benefit	Termination benefits	Share-based payments	Total
Registered directors (executive)	₩ 4,074	₩ 230	₩ -	₩ 3,481	₩ 7,785
Registered directors (non-executive)	1,107	-	-	18	1,125
Non-registered directors	3,122	435	-	1,984	5,541
	₩ 8,303	₩ 665	₩ -	₩ 5,483	₩ 14,451

(in millions of Korean won)

	2011				
	Short-term employee benefits	Post-employment benefit	Termination benefits	Share-based payments	Total
Registered directors (executive)	₩ 4,614	₩ 284	₩ -	₩ 2,654	₩ 7,552
Registered directors (non-executive)	1,011	-	-	(48)	963
Non-registered directors	5,769	505	135	840	7,249
	₩ 11,394	₩ 789	₩ 135	₩ 3,446	₩ 15,764

45. Business combination

The Group established KB Savings Bank Co., Ltd. with a capital investment of ₩ 171,526 million in January 2012. KB Savings Bank Co., Ltd. signed a purchase & assumption(P&A) deal for selected assets and liabilities of Jeil Savings Bank Co., Ltd. with Korea Deposit Insurance Corporation on January 11, 2012. KB Savings Bank Co., Ltd. obtained an approval to operate from the Financial Services Commission and acquired the assets and liabilities of Jeil Savings Bank Co., Ltd. on January 13, 2012. The Group expects synergies from diversification of customers through the P&A deal and has recognized the goodwill attributable to the synergies in 2012.

The consideration transferred and the assets and liabilities arising from the P&A deal are as follows:

(In millions of Korean won)

	Amounts	
Total consideration	₩	-
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and due from financial institutions		40,575
Loans		280,106
Financial investments		17,671
Other assets		2,207,663
Total assets		2,546,015
Deposits		2,558,119
Other liabilities		95,896
Total liabilities		2,654,015
Total identifiable net assets	₩	(108,000)
Goodwill	₩	108,000
Acquisition-related costs ¹		1,527

¹ Recorded in fee and commission expense in the statement of comprehensive income.

The receivables including loans from the P&A deal at the acquisition date are as follows:

(In millions of Korean won)

	Amounts	
Fair value		
Cash and due from financial institutions	₩	40,575
Loans		280,106
Others		2,207,663
	₩	2,528,344
Contractual cash flow		
Cash and due from financial institutions	₩	41,127
Loans		416,116
Others		2,207,663
	₩	2,664,906
Estimate of the contractual cash flows not expected to be collected		
Cash and due from financial institutions	₩	-
Loans		119,164
Others		-
	₩	119,164

Through the business combination, the net operating loss and loss for the period from January 13, 2012 to December 31, 2012, included in the consolidated statement of comprehensive income were ₩ 3,237 million and ₩ 34,860 million, respectively.

46. Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 consolidated financial statements was approved by the Board of Directors on February 28, 2013.

Overseas Network

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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.

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