

KOREA EXCHANGE BANK 2011 ANNUAL REPORT



THE NEXT STAGE OF GROWTH





KEB's corporate identity (CI) encapsulates our strategic vision as a global bank expanding throughout Asia and the world. It also symbolizes our unfaltering desire to provide our customers with the highest level of service.

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THE NEXT STAGE OF GROWTH

KOREA'S MOST CUSTOMER-CENTERED BANK

Korea Exchange Bank marks the 45th anniversary of its founding amid recognition as the Korean bank with the largest global network and for fast becoming the most customer-centered bank in the nation by providing high-quality services built around expertise in foreign exchange. The Bank's strategic marketing practices, effective use of capital and manpower, ethical management, strong sense of staff unity, and advanced human resources system have enabled KEB to become an industry leader that sets the pace for other banks to follow.

Backed by our state-of-the-art Smart Banking system, KEB will maintain its status as Korea's most global bank and continue to provide the industry's highest level of asset quality as a leader in the domestic financial sector.

A DOMINANT PLAYER IN TRADE FINANCE AND INTERNATIONAL TRADE

KEB was founded in 1967 as a state-sponsored bank specializing in foreign exchange. We went on to become Korea's leading bank in trade finance and international finance, contributing to the country's trade-driven economic growth in the 1970s and 1980s.

In the midst of the 1998 Asian financial crisis, our people marshaled their resources and embraced change, which ultimately improved our revenue structure. Then and now, we remain committed to our foreign exchange business — a unique strength of KEB — as a means of sharpening our competitive edge.

KEB has earned recognition from some of the world's most prominent finance journals for our expertise in foreign exchange and trade finance. Such accolades have solidified our position as a leading global bank with representation in 49 offices in 21 countries.



PERFORMING AT THE HIGHEST LEVEL

**KEB CONTINUES TO MAINTAIN ITS ROBUST MARKET LEADERSHIP
IN ITS CORE BUSINESSES OF FOREIGN EXCHANGE AND TRADE FINANCE.**



KEB achieved leading market shares of 47% in foreign exchange, 33% in export finance and 30% in import finance in 2011.



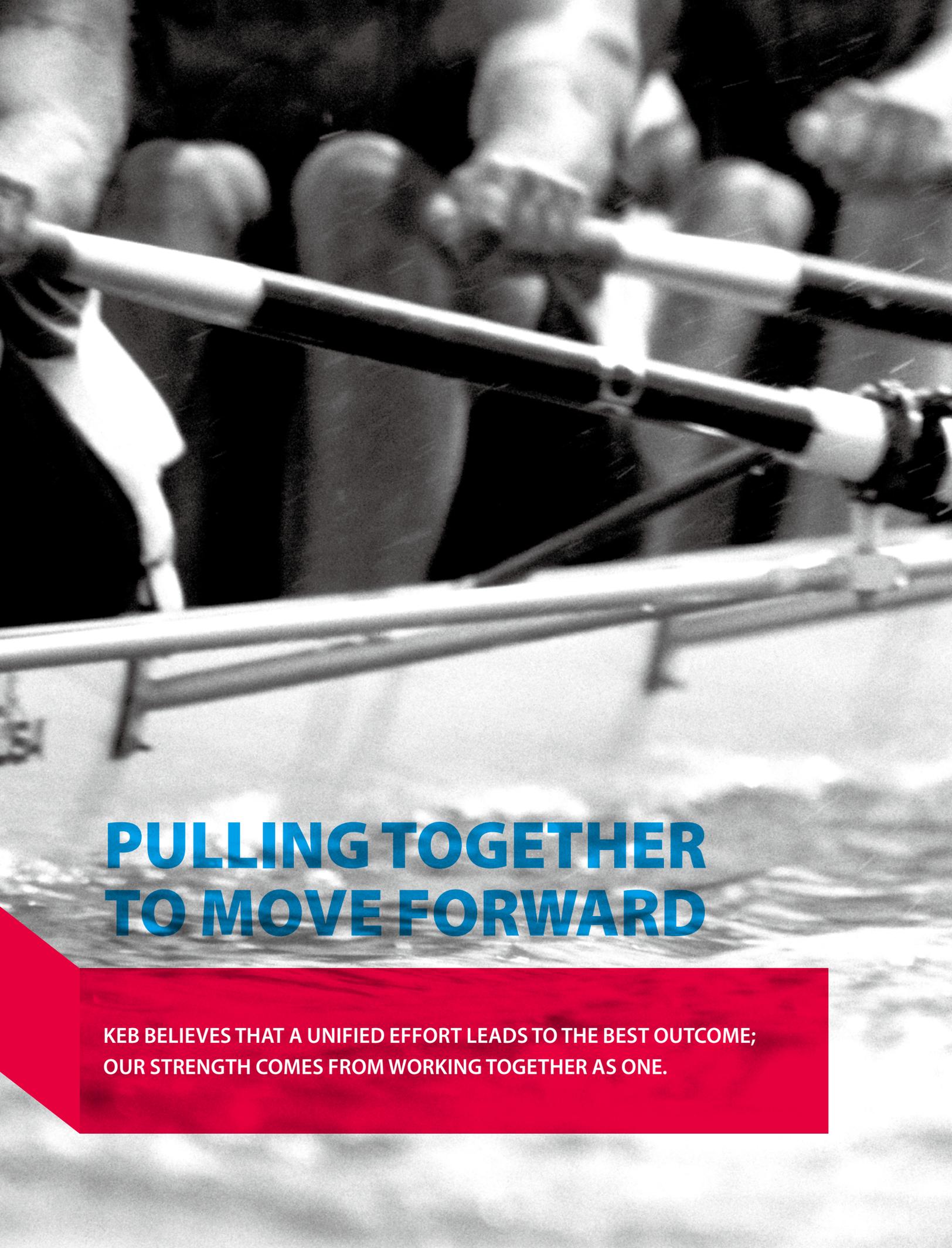
FX MARKET SHARE



EXPORT MARKET SHARE

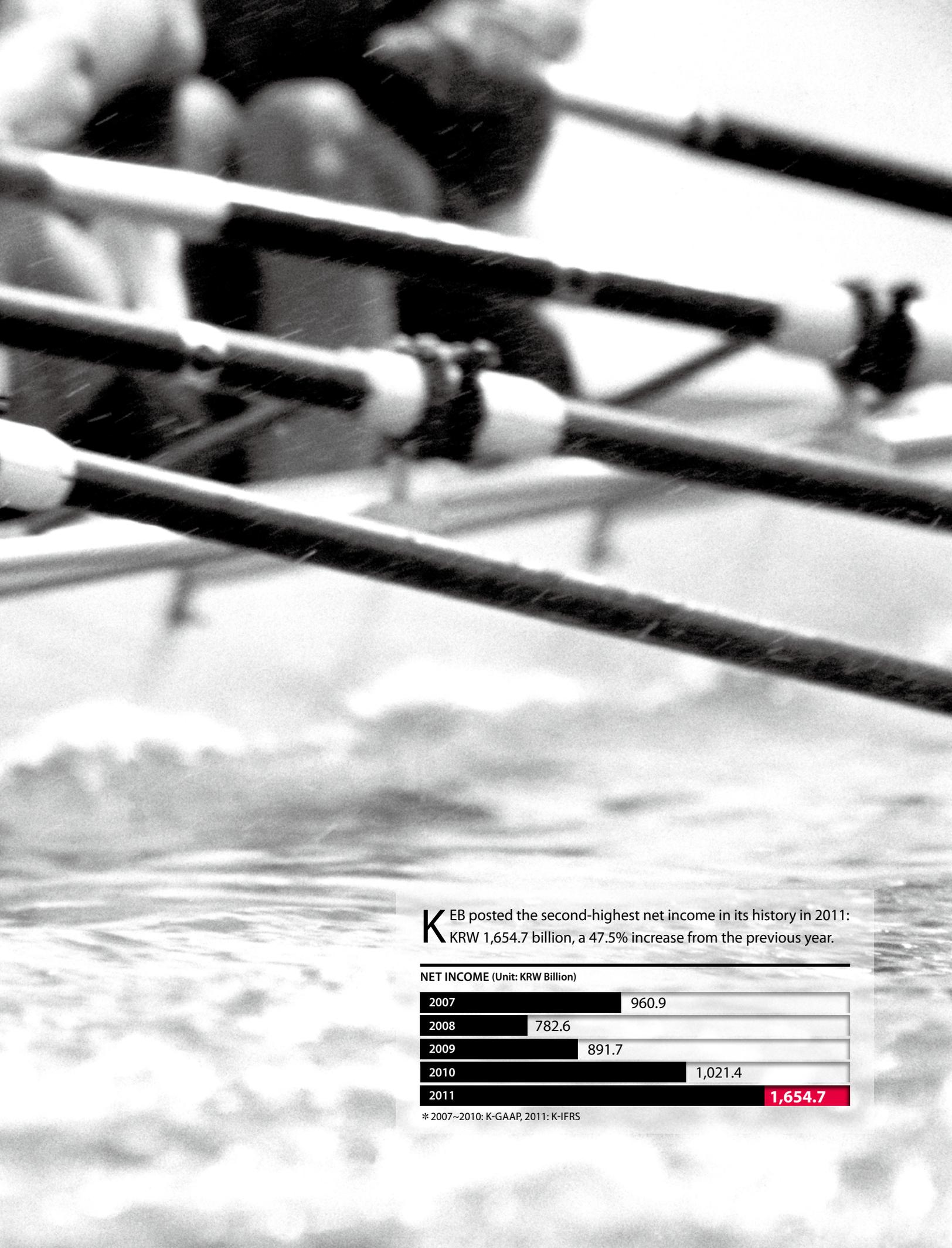


IMPORT MARKET SHARE



PULLING TOGETHER TO MOVE FORWARD

**KEB BELIEVES THAT A UNIFIED EFFORT LEADS TO THE BEST OUTCOME;
OUR STRENGTH COMES FROM WORKING TOGETHER AS ONE.**



KEB posted the second-highest net income in its history in 2011: KRW 1,654.7 billion, a 47.5% increase from the previous year.

NET INCOME (Unit: KRW Billion)

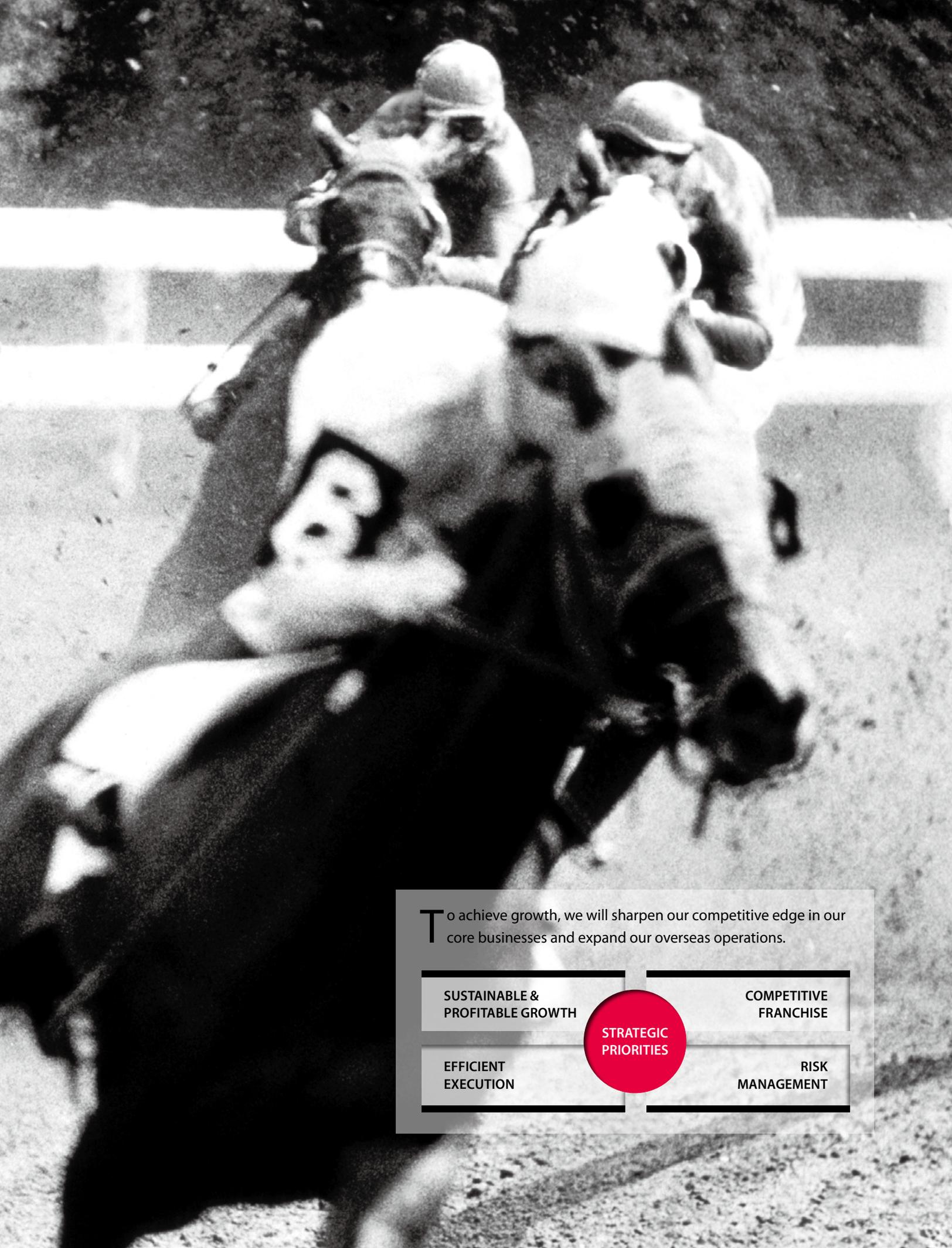
| | |
|------|----------------|
| 2007 | 960.9 |
| 2008 | 782.6 |
| 2009 | 891.7 |
| 2010 | 1,021.4 |
| 2011 | 1,654.7 |

* 2007~2010: K-GAAP, 2011: K-IFRS



A STRONG COMMITMENT TO GROWTH

KEB IS COMMITTED TO GROWING KEB'S FRANCHISE AT HOME AND ABROAD.
WE WILL PURSUE SMART AND PROFITABLE GROWTH.



To achieve growth, we will sharpen our competitive edge in our core businesses and expand our overseas operations.

SUSTAINABLE &
PROFITABLE GROWTH

COMPETITIVE
FRANCHISE

EFFICIENT
EXECUTION

RISK
MANAGEMENT

STRATEGIC
PRIORITIES

A LETTER TO SHAREHOLDERS FROM THE PRESIDENT & CEO



Yong-Ro Yun
President & CEO

“It was a great honor to be named KEB’s President and Chief Executive Officer this February. Going forward, I will focus on strengthening KEB’s core competencies in corporate banking, overseas operations, foreign exchange and trade finance to ensure that KEB continues to grow into Asia’s top-ranking global bank.”

TO OUR VALUED CUSTOMERS AND SHAREHOLDERS:

First of all, I would like to thank you for your continued support and encouragement. 2012 is the Year of the Dragon, a mythical creature that symbolizes hope and prosperity. We started the year at Korea Exchange Bank with a truly milestone event, becoming a Hana Financial Group subsidiary in February. We have high hopes this year as we redouble our efforts to become a leading global bank by strengthening our franchise and expanding our global operations. It was a great honor for me to join KEB as the President and Chief Executive Officer at this critical juncture.

Last year was a challenging time for all Korean banks. The European sovereign debt crisis heightened financial uncertainties and led to a global economic slowdown, which dampened export and import growth as well as private consumption. I am proud to report that during this difficult period, KEB delivered outstanding financial results while also safeguarding its capital and its portfolio.

We achieved the second-highest earnings in our history in 2011, with net income of KRW 1,654.7 billion, up 47.5% from 2010. Extraordinary gains of KRW 875.6 billion from the sale of Hyundai Engineering & Construction shares contributed substantially to the increase in net income. Our return on equity rose to 17.8% in 2011, up from 12.6% in 2010, while our return on assets jumped to 1.45% from 1.03%. KEB's capital position remained robust, with a BIS capital ratio of 14.48% and a Tier 1 capital ratio of 11.95% at the end of the year. We ended the year with an improved non-performing loan (NPL) ratio of 1.18%, down from 1.34% a year earlier. Our NPL coverage ratio also rose to 145.1% from 124.8% at the end of 2010.

We continued to maintain our strong competitive position in FX and trade finance in 2011 with market shares of 47% in FX, 33% in export finance, and 30% in import finance, and received many awards for our outstanding performance. *Global Finance* named KEB the Best Trade Finance Provider in Korea for the 11th consecutive year and Best Foreign Exchange Provider in Korea for the 10th consecutive year. *Asiamoney* recognized KEB with its 2011 Best Domestic Provider of Foreign Exchange Services in Korea award, while *FinanceAsia* named us the Best Foreign Exchange Bank in Korea and the Best Trade Finance Bank in Korea for the 4th consecutive year.

In February, Standard & Poor's Ratings Services upgraded our long-term credit rating to A- from BBB+, reflecting its view that KEB is a highly strategic subsidiary of the enlarged Hana Financial Group.

1,654.7
KRW billion

KEB posted the second-highest net income in its history

17.8%
Return on equity

Profitability indicator
ROE increased significantly



Looking forward, we anticipate the business environment to remain challenging in 2012 due to stressed economic circumstances. The global economic slowdown has continued into 2012, contributing to a weakening of the domestic economy. In addition, KEB faces intensifying competition and is operating within a regulatory environment that is implementing and enforcing tougher rules in the areas of capital and liquidity. Although many challenges lie ahead of us this year, I am confident that KEB will successfully navigate through these challenges and continue making strides toward becoming a

globally competitive bank.

For 2012 and beyond, there are five strategic priorities for the KEB management:

First, we will focus on strengthening our core competencies.

We will expand and strengthen our overseas operations and sharpen our competitive edge in our foreign exchange and corporate banking businesses. We are planning to open new branches in Abu Dhabi, UAE, and Chennai, India, this year and are also exploring opportunities to re-establish operations in the U.S.



Second, we will expand our customer base by becoming more customer-focused.

In order to become our customers' most-trusted financial partner, we will improve our customer segmentation processes, which will allow us to better understand our customers' diverse needs. This will include developing even more individualized and differentiated products and services.

Third, we will strive to optimize efficiencies through tighter cost containment.

The recent global financial crisis has forced banks everywhere to implement cost-cutting measures to combat their declining net interest margins and profitability. KEB will carry out an exhaustive, in-depth cost-benefit analysis to find ways to reduce unnecessary expenditures and enhance efficiency.

Fourth, we will strengthen our organizational capabilities.

We will enhance the competitiveness of KEB by strengthening our expertise in our areas of specialty—foreign exchange and corporate banking—and adopting a flexible organizational structure in order to optimally allocate human capital and other resources.



INTERVIEW WITH THE CEO

Q. As the new CEO, what is your vision for KEB?

A. KEB has great strengths in foreign exchange, trade finance, overseas operations, and corporate banking. My focus will be to bolster these areas further. My other priorities include boosting employee morale by transforming KEB into an even better workplace and raising customer satisfaction by making us more customer-centered. Through these efforts, I hope to strengthen KEB's global competitiveness in order to become a top-tier global bank in Asia.

Q. What challenges is KEB facing this year?

A. A key risk factor for KEB as it pursues its growth strategy is a potential decline in asset quality. To counter this, we will reinforce our credit underwriting and risk management processes. We will also focus on tightening our internal controls to ensure that no untoward or unexpected accidents occur during this critical transition period.

Fifth, we will practice pre-emptive risk management and enhance our compliance and control functions.

In addition to continually upgrading our credit underwriting and management models, we will strengthen our monitoring and management of liquidity and market risk to ensure that we maintain healthy levels of capital. In addition, we will enhance the KEB's transparency and augment customer trust by improving our internal control and legal compliance functions.

This year we began a new chapter in KEB's history. The dedicated staff of KEB, in close partnership with Hana Financial Group, will work together to grow and develop KEB into a globally competitive bank. With the support and encouragement of our customers and shareholders, we will continue to be our clients' most-trusted financial partner.

In closing, I would like to wish you and your families a happy and healthy 2012.

Yong-ro Yun
President & CEO

FINANCIAL HIGHLIGHTS

(In billions of KRW)

| | 2009 | 2010 | 2011 |
|--|------|------|------|
|--|------|------|------|

INCOME STATEMENT

| | | | |
|----------------------|---------|---------|---------|
| Total Income | 2,540.8 | 2,799.0 | 3,003.7 |
| Net Interest Income | 1,917.9 | 2,152.8 | 2,417.7 |
| Fees & Commissions | 463.2 | 459.3 | 494.1 |
| Non Interest Income | 159.7 | 186.9 | 91.9 |
| Total Expenses (G&A) | 1,223.7 | 1,173.1 | 1,443.9 |
| Operating Income | 1,317.2 | 1,625.8 | 1,559.8 |
| Net Income | 891.7 | 1,021.4 | 1,654.7 |

PROFITABILITY INDICES

| | | | |
|---------------------------|--------|--------|--------|
| Net Interest Margin (NIM) | 2.39% | 2.69% | 2.62% |
| Return on Assets | 0.88% | 1.03% | 1.45% |
| Return on Equity | 12.27% | 12.57% | 17.78% |

BALANCE SHEET (INCLUDING TRUST ACCOUNT)

| | | | |
|----------------|-----------|-----------|-----------|
| Total Assets | 107,728.9 | 115,116.0 | 100,497.0 |
| Total Loans | 70,550.5 | 69,181.6 | 67,944.3 |
| Total Deposits | 67,371.3 | 74,873.8 | 64,429.6 |

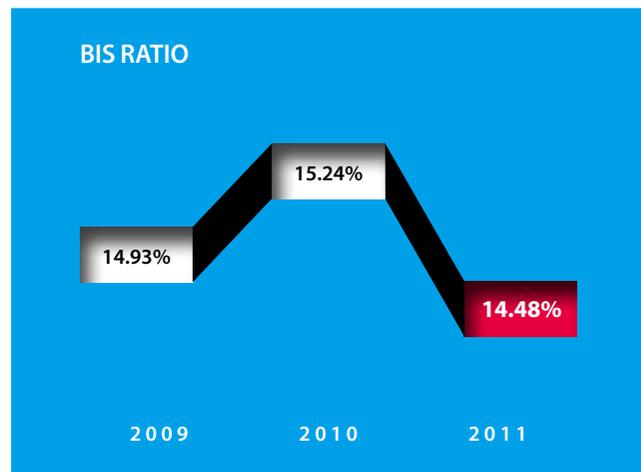
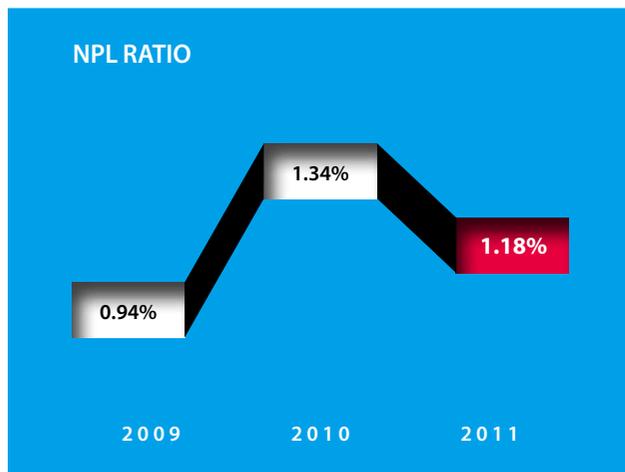
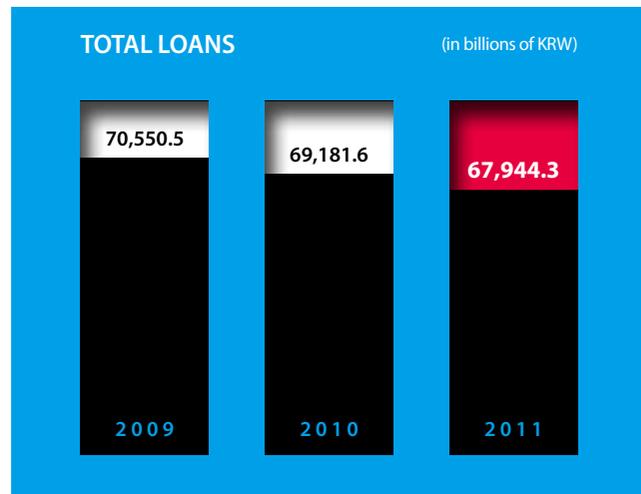
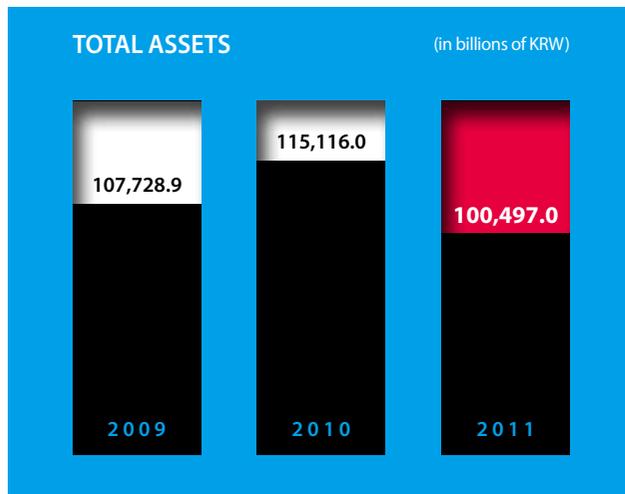
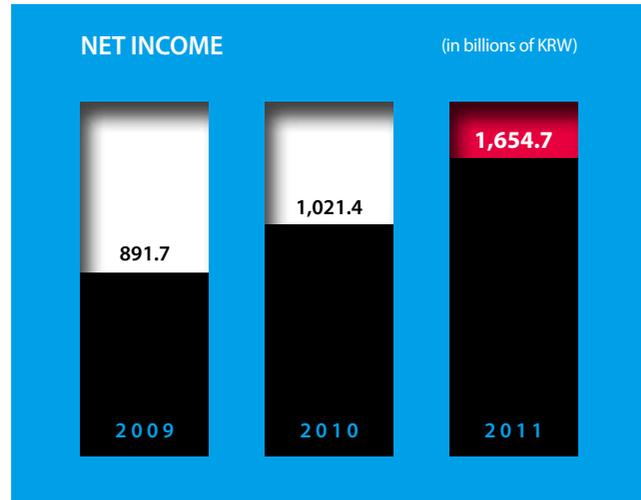
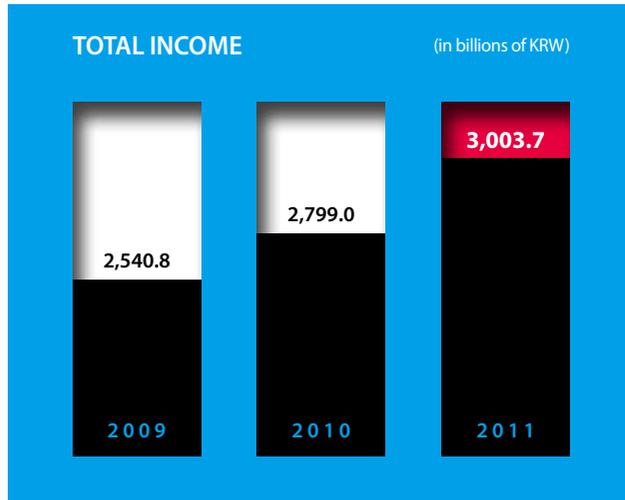
ASSET QUALITY

| | | | |
|--------------------------------------|--------|--------|--------|
| NPL Ratio | 0.94% | 1.34% | 1.18% |
| NPL Coverage Ratio | 152.5% | 124.8% | 145.1% |
| Precautionary & Below Ratio | 2.27% | 3.21% | 2.67% |
| Precautionary & Below Coverage Ratio | 63.3% | 52.0% | 64.4% |
| Delinquency Ratio | 0.50% | 0.47% | 0.59% |

CAPITAL ADEQUACY

| | | | |
|---------------|--------|--------|--------|
| BIS Ratio | 14.93% | 15.24% | 14.48% |
| Tier I Ratio | 11.04% | 12.15% | 11.95% |
| Tier II Ratio | 3.89% | 3.09% | 2.53% |

Note) 2009~2010: K-GAAP, 2011: K-IFRS (NIM and asset quality: non-consolidated, other figures: consolidated)





KOREA'S MOST POPULAR PARTNER FOR GLOBAL BANKING

As Korea's leading global bank, we are the market leader in foreign exchange and trade finance and boast on overseas network spanning twenty-one countries around the world.

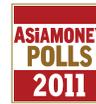
Going forward, KEB will continue to expand overseas by utilizing its strategic marketing, capital, and human resources to position the Bank as the financial partner that customers and investors trust most.

GLOBAL & CORPORATE BANKING

Our global and corporate banking groups work together to serve our customers in Korea and around the globe. We offer an unparalleled level of service in our areas of specialty, foreign exchange and trade finance, and provide a wide range of support services for foreign customers.



Best Trade Finance
Provider in Korea
by *Global Finance*



Best Foreign Exchange
Bank in Korea
by *Asiamoney*

FinanceAsia

Best Trade Finance Bank in Korea
by *FinanceAsia*



LARGE CORPORATE BANKING

The Bank's Large Corporate Group (LCG) manages KEB's relationships with Korea-based conglomerates operating globally. Our Senior Relationship Managers, or SRMs, are experts in traditional banking services with further expertise in such areas as project finance, shipping finance, and M&As.

The LCG recorded operating income of KRW 313.5 billion in 2011, the third straight year in which it exceeded the KRW 300 billion mark. This was accomplished despite increasingly fierce competition among financial institutions to attract high-quality, large-scale corporate customers.

In 2011, the LCG enjoyed a stable increase in corporate borrowings, with loans to large business customers increasing by KRW 0.59 billion or 3.4% to more than KRW 18.13 trillion. The LCG also contributed to KEB's market leadership in trade finance. It carried out USD 145.3 billion worth of export transactions with large corporations (26% of the total in Korea), buying export bills amounting to USD 26.5 billion on behalf of large corporations, and USD 108.8 billion worth of import transactions (21% of the total in Korea), issuing USD 10.8 billion in letters of credit.

The LCG carries out collaborative marketing activities with other KEB business units to offer a wide variety of financial services requested by corporate customers. In addition, many overseas subsidiaries, employees, and vendors of large companies have become KEB customers, helping other business units broaden their customer base.



The LCG is also expanding the scope of KEBiNet, our global network that assists corporate customers with their globalization strategies. At the same time, our new market-leading trade finance products, such as e-Nego service and SWIFT TSU-related transactions, help us maintain positive relationships with our large corporate clients.

Going forward, we will strengthen our fee-based operations and add to our customer base to diversify our income sources. We will also continue our efforts to increase the volume of high-quality assets, to ensure continued and sustainable growth.

SME BANKING

KEB's Corporate Banking Group (CBG) serves the needs of small- and medium-sized enterprises, or SMEs. In 2011, the CBG experienced strong growth in total deposits and foreign exchange, but loan growth was weak due to the European financial crisis.

Despite muted loan growth, the CBG improved its asset quality, with the percentage of prime borrowers increasing by 5.9%p during the year to 59.8% of its total loans. The Group also maintained a leading domestic market share in trade finance of 27.5%. In addition, its ratio of non-performing loans improved significantly, decreasing to 0.91% from 1.39% a year ago.

Total deposits rose by KRW 1 trillion or 7.6% to KRW 14.2 trillion. Foreign exchange transactions also grew by KRW 16.5 billion or 17.4% to KRW 111.5 billion, adding to the Bank's position as Korea's leading foreign exchange bank.

In 2012, KEB will enhance its brand power in the field of corporate banking by retaining its industry-leading market share in the area of foreign exchange and outpacing its competitors in trade finance. In addition, we will expand our customer base by making better use of our state-of-the-art customer management system, and continue achieving synergies with the Bank's other business units. Our goal is to achieve profitable, sustainable growth in all our business activities.

KEB boasts the broadest global branch network and most extensive foreign exchange and trade finance operations of any Korean bank.

46.9%

Market share

Foreign exchange transactions

INVESTMENT BANKING

The Bank's investment banking (IB) business has been diversified to include overseas project finance, energy financing, and other promising areas that will serve as new growth engines for the Bank. In 2009, KEB Asia Finance (KAF) was established in Hong Kong to provide a strategic channel for bolstering the Bank's overseas IB business. These moves earned KEB KRW 38.1 billion, either as a deal arranger or a participant.

Going forward, the IB Division will enhance KEB's reputation in the market by building its investment banking business. We will pursue the following strategies to build a global IB growth platform and develop IB into a major growth driver for the Bank.

First, we will broaden our operations so that the Bank's IB asset portfolio can be enlarged and diversified. This means that KEB will be involved in more deals to finance acquisitions, either as the arranger or the participant. In addition, we will backstop promising energy projects and increase our opportunities for being the lead arranger for financing overseas projects. We will also increase our involvement in structured financing, corporate financing in other currencies, and the financing of privately funded, build-transfer-operate or build-transfer-lease infrastructure projects.

Another of our goals is to add to our fee-based business opportunities by increasing our involvement in arranging new projects. We will also attract new IB customers by creating more marketing synergies with other KEB divisions and strengthening our utilization of KAF's overseas IB network.

FOREIGN EXCHANGE AND TRADE FINANCE

KEB is Korea's leading foreign exchange specialist, boasting the largest global branch network and most extensive foreign exchange and trade finance operations of any bank in Korea.

In 2011, we maintained our leading position in the domestic foreign exchange market, boasting a 46.9% share of transactions handled by the nation's top seven commercial financial institutions. We repeated this success in the trade finance sector, recording industry-leading market shares of 33.3% for export finance and 30.0% for import finance.

As a result of our solid performances in these core business areas, KEB won plaudits from a number of respected finance publications. We were named the Best Trade Finance Provider in Korea for the 11th consecutive year and Best Foreign Exchange Provider in Korea for the 10th consecutive year by *Global Finance*, while *AsiaMoney* selected us for its 2011 Best Domestic Provider of Foreign Exchange Services in

Korea award. *FinanceAsia* recognized KEB as the Best Trade Finance Bank in Korea and Best Foreign Exchange Bank in Korea for the 4th consecutive year. In September 2011, KEB became accredited with a Bank Readiness Certification from SWIFT and joined SWIFT's online database, giving corporate customers information on the SWIFT capabilities of their banking partners.

We continued to develop new products and services to buttress our leading positions in 2011. In January, we started offering foreign currency deposit passbooks with all transaction details printed in English. In March, we implemented a service called "SWIFTNet TSU (Trade Services Utility) Payment Guarantee Issuance," which prepares, exchanges, and verifies electronic import and export documents through the SWIFT network. A new service enabling customers to withdraw cash in Korean won from their foreign currency deposits without a passbook or a bank card was implemented in June. In July, we formed a partnership with telecommunications service provider KT Corporation, LIG Insurance and the Korea Association of Study Abroad Industries (KASAI) to provide tuition payment services from home, telecommunication services and insurance policies to students studying abroad through KASAI.

Throughout the year, we provided forty-three companies with training in foreign exchange and import- and export-related laws and regulations, and advised them on how to manage foreign exchange-related disputes and how to improve their foreign exchange and import/export operating processes.

We process money transfers in twenty-six currencies, and offer money exchange service in forty-one—the most in Korea. In addition, we handle transactions in more than one hundred currencies, including seventy collection currencies, making us the country's undisputed FX leader.



85%
Market share

Multi-currency
interbank transfers

CLS SETTLEMENT & CLEARING

Continuous Linked Settlement (CLS) refers to the risk-free, cross-border settlement of foreign exchange transactions among global financial institutions. One of its key features is simultaneous settlements based on real-time payments, as opposed to payments with multilateral netting. KEB worked closely with the Korean government and the Bank of Korea to introduce CLS to Korea and have the Korean won designated one of seventeen CLS-eligible currencies. Since then, KEB has been serving as the Settlement Member of and Korean won liquidity provider for CLS Bank International.

KEB has been providing CLS for non-deliverable forward contracts since July 2008. The Bank is now preparing to expand into new product areas, such as FX option premiums. Korea's regulator is also planning to allow securities, insurance, and investment companies to participate in CLS settlements, which will increase their volume even more.

KEB currently settles FX deals through CLS for nine of the thirteen domestic banks and Seoul branches of a foreign bank, which together account for 72% of the country's CLS TP Service market. It also provides a CLS KRW Nostro Service, serving as an agent bank for foreign settlement members settling KRW in CLS. The Bank currently serves nine of the fourteen banks, attracting 64% of CLS KRW Nostro Service users.

Since its establishment in 1967, KEB has been providing multi-currency inter-bank clearing for both local and overseas banks. In 2011, the Bank processed 3.5 million inter-bank transfers, accounting for 85% of the total in Korea. It served sixty-one local banks (including the Seoul branches of foreign banks) and 122 overseas banks.

We have been working to upgrade our IT platform and develop new products to meet the growing volume of SWIFT traffic in payments, trade finance, treasury, and securities each year. In 2011, our inter-bank clearing service posted a record straight-through process ratio of 95%. Since 2005, KEB has also been providing i-Vostro services, an Internet-based foreign currency transfer and inquiry system offering real-time, online inter-bank clearing services to local and foreign banks.

We also offer Korean won and regulatory advisory services to foreign banks, both to meet rising market demand for Korean won settlement in the market and to support the regulator's won liberalization policies. Our expertise, reliability, and reputation in terms of CLS and inter-bank clearing will pave the way for KEB to emerge as Asia's main clearing hub for domestic and overseas banks.

CUSTODY & FUND ADMINISTRATION

KEB is Korea's leading custodian bank. Its custody and fund administration services boast a large customer base both within and outside of Korea, including institutional investors, government entities, and foreign investors. In 2011, the value of its assets under custody totaled KRW 81 trillion. Our high quality, fee-based capital market services include acting as a securities lending, paying, and escrow agency, an SPC trustee, and a custodian. KEB was named the Best Sub-Custodian Bank in Korea by *Global Finance* for the third time in 2011.

In addition, the complementary capabilities of our custody business and the fund accounting services of our subsidiary, KEB Investor Services, allow KEB to offer its institutional customers unparalleled services to meet their needs and their growing fiduciary duties.

INTERNATIONAL GROUP



OVERSEAS OPERATIONS

Our International Group supports the needs of our customers outside of Korea through the most extensive overseas network among all Korean banks. As of the end of 2011, we operated 49 offices in 21 countries around the world, including 12 branches, 10 local subsidiaries, 5 representative offices, and 22 sub-branches.

In 2011, operating income from our overseas operations rose by 20.7% to USD 170.4 million. Total assets rose by 9.1% over the previous year to USD 10.4 billion while total deposits increased 6.4% to USD 4.5 billion.

Going forward, we would like to bolster our presence in Asia, a region with high growth potential, and re-start banking operations in the U.S. In 2012, we are planning to establish new branches in Abu Dhabi, UAE and Chennai, India, and expand our network in China.

FOREIGN CUSTOMER MARKETING SUPPORT DEPARTMENT

FOREIGN CUSTOMERS' MOST PREFERRED BANK

Foreign (non-Korean) residents and businesses in Korea are a very promising market for KEB. As of 2011, there were about 1.4 million foreigners registered as living in Korea, and about 14,000 foreign-invested enterprises were in operation.

The Foreign Customer Division was established in January 1995 to tap into this market. It manages the Bank's foreign customers and supports marketing activities targeting this demographic.

RETAIL BANKING

The Foreign Customer Division develops banking services that meet the needs of non-Koreans. It operates three Foreign VIP Centers and nineteen Global Desks to serve them. They are staffed with specially trained bilingual bankers who can offer advice on anything from opening an account to applying for a credit card and sending money home. In addition, KEB regularly sponsors cultural events for foreigners.

CORPORATE BANKING

We have leveraged our expertise as Korea's foremost foreign exchange and trade finance handler and provider of advanced e-banking platforms to become the primary bank for a majority of the foreign-invested enterprises (FIEs) operating in Korea. Many of these companies are classified as SMEs in Korea owing to the limited size of their operations. KEB differs from its competitors in taking the size, status, and credit ratings of their parent company into account when evaluating their credit standing. This means that we can provide even start-up FIEs with flexible credit arrangements.

The Foreign Customer Division operates fifteen branches across the nation to manage the Bank's FIE clients. In addition, it uses KEB's extensive overseas network to offer the parent companies of FIE customers in Korea a full range of banking services, facilitating their organization-wide growth strategies.

FOREIGN DIRECT INVESTMENT

KEB's highly specialized team of Foreign Direct Investment (FDI) consultants assists foreign-invested companies in Korea. They provide support for FIEs in preparing FDI reports, establishing new business entities, and setting up financial management systems. For newly established FIEs, the consultants provide many forms of assistance using their established relationships with law firms, accounting firms, foreign chambers of commerce in Korea, foreign embassies, international trade and investment bodies, and the Korea Trade-Investment Promotion Agency (KOTRA).

In 2011, KEB retained a dominant share of 34.2% of the country's FDI notification market, having offered specialized consulting services to more than 900 FIEs that were established during the year.



ANSWERING THE INDIVIDUAL NEEDS OF OUR CUSTOMERS

To grow our customer base and meet their increasingly diverse financial needs, KEB will continue to develop customized products and services and deliver greater value for existing ones.

We will embrace the latest technology in mobile communications and smart banking to provide our customers with cutting-edge banking conveniences.

RETAIL BANKING

Customers today expect not only competitive deposit and lending rates, but also fast and reliable answers to their questions, simple and clear transactions, and attentive responsiveness to solve their problems. We minimize the administrative burden on our front-line staff so that they can devote their attention to understanding and fulfilling customer needs.



KEB Crossmile Card won the Amex Product Innovation Award



KEB Signature Card won the 2011 THE PROUD Most Valuable Product Award



CUSTOMERS

KEB's marketing activities are differentiated by customer segment and branch cluster. This helps us retain our customer base, strengthens our up-selling and cross-selling activities, and increases our attractiveness to new customers.

As part of efforts to expand our customer base, we launched two new package products in 2011. "Edu Q" targeted housewives while "Happinior" was a product developed for our senior customers. These were added to our four previously introduced package products, namely Wingo, N°N, Biz Partner, and Rainbow. We also reinforced our joint retail-card marketing efforts by combining these package products with integrated rewards. The number of customers who signed up for our package products totaled 862,000 while the total number of joint retail-card customers totaled 2,943,000 at the end of the year.

In 2012, we aim to increase the number of active customers by attracting customers to our package products as well as our demand and installment deposits. We will also improve our customer management programs and revamp our next-generation customer relationship management system. In addition, we will expand our sales network by introducing high-tech "Smart Branches" and a "Portable Branch" sales support channel.



KEB continued to focus on increasing demand and time deposits to enhance the stability and profitability of funding.

DEPOSITS

In 2011, KEB continued to focus on increasing demand and time deposits to enhance the stability and profitability of funding. The Bank's loan-to-deposit ratio improved to 93.0%, from 96.8% in 2010, while total deposits increased by KRW 1 trillion or 3.6% to KRW 29 trillion. Time deposits and core deposits grew by KRW 1.7 trillion or 14.4% and KRW 0.2 trillion or 3.2%, respectively, to KRW 13.7 trillion and KRW 7.6 trillion.

In 2012, we will focus on increasing longer-term retail deposits to strengthen the stability of our funding structure while stepping up marketing for installment and low-cost demand deposits to improve our profitability.

HOUSEHOLD LOANS

We increased our household lending in 2011 with total household loans increasing by KRW 0.4 trillion or 2.3% to KRW 19.6 trillion. The increase was driven by the growth of mortgage loans, which rose by KRW 0.3 trillion or 2.3% to KRW 12.8 trillion. The asset quality of household loans improved with an NPL ratio of 0.33% and a delinquency ratio of 0.42% at the end of 2011, down from 0.36% and 0.44%, respectively, one year ago.

In support of the government's policies on small loans, we extended KRW 34.6 billion in loans to low-income, weak credit borrowers. In addition, we offered KRW 500 billion in fixed-rate loans to protect borrowers from future interest rate hikes.

In 2012, we will maintain our asset soundness by increasing mortgage loans and low-risk loans, with an emphasis on high-quality unsecured loans. We will also continue to support low-income, weak credit customers.

PRIVATE BANKING

KEB offers its VIP customers a variety of sophisticated services to help them manage their assets profitably and efficiently. Our Private Banking (PB) products and services enable customers to broaden their asset portfolios with innovative stock, insurance, and foreign exchange-related investment instruments. We also offer real-estate management and disposal services, advice on taxes, wills, inheritances, and business succession, specialized financial planning, and overseas education and emigration assistance.

Our objective is to make KEB the first choice in Korea's very competitive PB market by constantly expanding the scope of and increasing the quality of our services. We operated eleven Wealth Management Centers and seventy-one specially designated PB Branches at the end of 2011.

KEB provides an unparalleled level of tailor-made services and benefits to maintain the exclusivity of its high-end “VVIP” customers. Customer loyalty is cultivated through special advisory services and invitation-only events, such as comprehensive asset management seminars. We also leverage our overseas branch network and KEB’s strengths in the FX field to market our asset management services to Koreans living abroad.

BANCASSURANCE

KEB started selling bancassurance in September 2003, after the domestic market was opened to international competition. The business has grown steadily since then, thanks to our strategic partnership agreements with Korea’s leading insurance companies and our ongoing training of bancassurance specialists. Our retail customers can choose from a wide variety of low-premium annuity and endowment insurance plans.

The bancassurance market in Korea grew strongly in 2011 with premium income from insurance policies sold through bancassurance increasing by 15.3% to KRW 18.2 trillion and accounting for 12.6% of total insurance premium income. As a result of this growth, commissions paid to banks and other financial institutions also rose by 14.6% over the year to KRW 816.0 billion.

In 2011, fee income from the sale of bancassurance products at KEB declined to KRW 19 billion due to special circumstances in the first half of 2011. Our bancassurance fee income has been steadily increasing since the second half of the year and we expect to see continued growth in 2012.

INVESTMENT PRODUCTS

The global market started the year 2011 expecting to see a high supply of liquidity and a global economic recovery as the result of a new program of quantitative easing by the U.S. Federal Reserve Board. Unfortunately, negative factors (including a sudden rise in international oil prices, damage to the global production axis beginning in Japan, a credit crunch in Europe, and the lowering of the United States’ credit rating) continued to predominate. As a result, stock markets — particularly those in new and emerging markets — experienced large losses in the wake of foreign-based selling sprees. The value of gold, the U.S. dollar, and bonds rose in lockstep due to the market’s desire to find safe havens for its investments.

Here at home, the Korea Composite Stock Price Index, or KOSPI, equaled its historic high of 2,231 at one point in 2011, mainly due to increased liquidity and improved corporate results. However, it turned sharply bearish in August as a result of foreign selling emanating from worries about a “double dip” in the U.S. and a credit crunch in the euro zone. It began to rebound as investors took advantage of lower stock valuations and an easing of the cost of credit, but closed the year below 2,000.





In the investment products market, fund redemptions increased sharply, as customers who had been suffering huge losses since the global financial crisis of 2008 tried to recoup their losses. As a result, fund values slipped by about 14% over the year to reach KRW 4,597 billion, down from KRW 5,356 billion at the end of 2010.

KEB's full-selling of investment products received a sizable boost when it was given the highest ratings in evaluations by mystery shoppers targeting fund-selling companies, for the second consecutive year. The evaluation was carried out by the Financial Supervisory Service and the Korea Investors Protection Foundation.

We provide a wealth of high-level information, including investment strategies and market data, through our Wealth Management System (WMS), an advisory support system for our investment customers. In addition, we sell a broad range of investment products, including 265 domestic funds and 120 offshore ones, enabling our customers to develop portfolios that fit their investment needs and propensities. In 2012, we will continue offering our customers a wide range of high-quality investment advisory services.

TRUST & PENSION BUSINESS

Trust is a fee-based business where KEB is entrusted with customers' monetary or real property and manages it according to the terms of the trust document or instructions of the customer. As a trustee, KEB returns the trust property plus any gains or losses to the customer without assuming the risk of losses (principal-protected trusts excepted). KEB engages in money trusts, retirement pension trusts, and property trusts.

The retirement pension business, which the Bank launched in 2005, has been growing steadily. Based on over two decades of experience in pension products, we differentiate our services from those of our competitors by adopting a brand concept and providing follow-up services after the initial sale of pension products.

KEB will continue playing a leading role in the trust and pension markets by developing new and innovative products, such as equity, bond, and structured products, in line with the ever-changing needs of our customers.

CARD BANKING

CREDIT CARDS

KEB's Card Department was a pioneer of the credit card business in Korea, having introduced the country's first Visa card in 1978. Despite fierce competition from other credit card issuers since then, we have enjoyed stable results by offering our customers a wide range of innovative products and services and operating a state-of-the-art customer relationship management (CRM) system. We have implemented a variety of strategies to enhance our management efficiency and ensure stable and sustainable growth. Our card business income in 2011 totaled KRW 187.6 billion.

We are continuously developing high-end products to strengthen our customer base and meet the needs of our many cardholders. In addition, we operate a wide range of systems and organizations that analyze and verify the competitiveness and profitability of our products. We will soon be introducing a system that will ensure optimal efficiency of our credit card product portfolio.

In 2011, we launched KEB Crossmile American Express® Card, an innovative credit card whose reward points can be converted into mileage at Korean Air and Asiana Airlines as well as other major airlines worldwide. We received the "2011 Amex Product Innovation Award" from American Express for outstanding product value and rewards programs. KEB Signature Card also won the "2011 THE PROUD Most Valuable Product" award from Korea Management Association for providing the best customer service through differentiated service innovation.

The Card Bank strengthens the loyalty of KEB's customer base by developing innovative new programs that deliver high customer value and meet their diverse wants and needs. We also undertake CRM activities that offer our cardholders an array of cultural programs and events and strengthen our communications with them.

CUSTOMERS

To manage our relationships with card customers, we segment our customers in order to provide customized services and programs for each customer segment. We carry out a host of CRM marketing activities, which include expanding our use of "trigger" promotions to increase the efficiency of our customer management programs, and monitoring their purchasing activities through a Customer Analysis Reporting system.

1978

Year

Introduced first
credit card in Korea



187.6

KRW billion

Card business
income



To attract and retain VIP customers, we are continually upgrading our VIP services and communicate frequently with our VIP customers using the latest technology such as mobile phone applications. We also carry out a wide range of activities targeting our top-ranking VIP cardholders such as concerts and cinema festivals while providing various VIP-only services such as special gifts and a VIP-only website.

Our promotional activities are based on demand models for each product, ensuring a stable revenue flow through the sale of our card products and services such as cash advances, card loans and revolving loans. Differentiated interest rates are offered to customers based on their credit rating and spending level.

We have also put systems in place to ensure that the rights and interests of our customers are fully respected. This includes a notification process for customers who are carrying an unpaid balance, and a cellphone authentication service to reduce phishing attacks. Other services are being developed on a continual basis.

In line with our strategy of branding our promotional events, we are planning to expand our popular “10,000 Won Surprise” credit card brand marketing event. We are also using social networking channels such as Facebook and LinkedIn to conduct viral marketing activities. In addition, to build our presence in the travel and entertainment market, we plan to identify relevant customers and develop products and services to meet their needs.

MERCHANTS

We conduct a wide variety of promotions with our online and offline merchants to increase our card sales volume. Links to bank branches are maintained to engage in ongoing affinity promotions with preferred merchants in each region of the country.

We currently have the highest market share in credit card purchases made in Korea with overseas credit cards. To further expand our industry leading position, we are making efforts to form partnerships with overseas credit card companies in order to open up new markets. We are currently working with UnionPay of China to handle credit card purchases made by Chinese visitors to Korea.

We put a Merchant Relationship Management system in place in 2011 to ensure the efficient management of our merchant base. This will increase our sales and revenue levels by strengthening our marketing and management activities targeting strategically important large merchants and regionally based small- and medium-sized merchants. In addition, we have formed an alliance with Hana SK Card to allow Hana SK to use our merchant network and payment system.

SYNERGIES

The Card Department generates synergy through cross-selling and joint marketing with other KEB units to promote major card products and encourage credit card sales. We also regularly train our employees in more effective sales techniques.

Our efforts to add to our number of high-quality customers include enhancing synergies among the Bank's units and developing a wide variety of new products, such as the very popular Crossmile Card. We also laid the groundwork for increasing our volume of corporate credit card sales by encouraging more cooperation among our business groups.

In 2011, we focused on building a foundation to grow our credit card sales. We were able to boost card sales by more than KRW 200 billion by promoting the use of our corporate credit cards to pay corporate, resident, and acquisition and registration taxes. We also signed an agreement with KT&G, laying the foundation for a sales increase of KRW 700 billion going forward. To enhance our competitiveness, we also developed the industry's highest standard corporate management system. Taken cumulatively, these steps are expected to produce our largest-ever volume of credit card sales from the second half of this year.



**DEDICATED TO
QUALITY SERVICE AND
THE INDUSTRY'S HIGHEST LEVEL
OF RISK MANAGEMENT**

We are steadily raising our business efficiency by employing innovative practices and developing safer, faster IT systems.

By strengthening the value of our brand, KEB is maturing into a "smart bank" that enjoys industry-high levels of customer satisfaction and trust.

QUALITY SERVICE PROVIDER

KEB has made efficient operational systems and processes a priority, and was the first among Korean banks to implement a process management system and Six Sigma approaches in our customer service operations.



KS (Korean Industrial Standard) Award
at 2011 World Standard Day from
the Minister of Knowledge Economy



Best Call Center across all industries
and sectors from Korea Management
Association Consulting



KEB INNOVATION AND SIX SIGMA

KEB adopted the Six Sigma program in 2005. One reason for doing this was to boost its competitiveness as a global bank by improving its product and service quality; another was to maximize its business operational efficiency. All of the Bank's internal innovation activities have been integrated within the Six Sigma framework.

The KEB Six Sigma program is leading changes in the Bank's culture and processes. It is a very useful tool for promoting the Bank's strategies for realizing its vision through the development of an innovative corporate culture.

The greatest result of adopting Six Sigma has been a marked improvement in the quality of our customer services. Our branch operations have been reorganized by relocating back-office functions to centralized banking centers so that branch employees can focus on serving customers. In addition, dramatic innovations within our banking centers have resulted in the implementation of a "service quality guarantee" program. This is a promise to our customers that we will offer them services that cannot be equaled anywhere else. Dissatisfied customers will receive some form of compensation, such as lower interest rates on their loans. This reflects our confidence in our ongoing innovation and quality levels.

KEB's Process Management System has improved the speed and efficiency of job processes by categorizing the core processes of each work stream and automating the production of various status reports and indices. This allows our management to control and operate core processes efficiently and make decisions quickly.

22.0

KRW billion

Savings from
Six Sigma projects



Another result is that we have been able to replace outside Six Sigma consultants with a team of in-house experts. Over 120 employees have earned Six Sigma belts while more than 2,500 employees have completed Six Sigma training courses. We have carried out more than 130 Six Sigma projects, which have resulted in improvements valued at over KRW 22 billion. Projects included shortening the Bank's BIS capital adequacy ratio settlement period and enhancing its accuracy, improving its merchant screening processes and upgrading its bill-clearing payment processes.

In 2011, the Bank finished making improvements to the KEB International Banking System, a key strategic project that was carried out by each business department to realize our vision of "Smart & Profitable Growth." It included building an Integrated Mail Center, upgrading our integrated Help Desk, and carrying out a series of large-scale projects to bolster our competitiveness such as establishing a Smart Branch task force to expand our number of cost-efficient operating channels.

In 2012, we will strengthen our innovation efforts from the perspective of our customers to build our profile as a user-friendly bank. This will be done by improving our customer-centered processes and carrying out customer satisfaction activities that raise our service quality by reducing the number of problems leading to complaints.

E-BUSINESS

In 2011, the rapid growth of the mobile Internet in Korea brought many changes to the financial industry. In response, KEB enhanced many of its electronic financial services.

In retail banking, we dramatically improved customer access by launching banking services for tablet devices such as the Galaxy Tab and expanding our smartphone banking service, which we launched in 2010, to enable customers to use their mobile devices for more types of financial transactions such as deposits and loans. We also started offering English-language smartphone banking service for our foreign customers.

We also launched a telephone-based ATM service, using Internet phones, Internet TV settlement service, and financial IC cards. This means that our customers are now able to access a wide spectrum of our financial services from their Internet-connected devices. In addition, we developed specialized mobile applications for our foreign exchange and credit card services. Our number of smartphone banking service users almost doubled over the year, a trend that is expected to continue.

Two of the Bank's most important goals are increasing its global presence and improving its operational efficiencies. To achieve these goals, we continued to upgrade our corporate banking and electronic banking processes.

For example, we upgraded our in-house banking operations to In-House BankingPLUS, enabling us to quickly and easily make changes to our corporate business and IT operations. This service, together with KEBiNet, our customized global banking solution, had been used by more than 450 companies as of the end of 2011.

We became the first financial industry player in Korea to develop a real-time foreign-currency fund management service. In addition, we provided a real-time domestic and foreign-currency transfer service to large companies like Kefico, SK planet, and Hyundai Powertech.

Some of our other new services include offering customers real-time return of margin payments for foreign-currency futures ordered on the Korea Exchange and the payment of foreign currency derivatives sold by securities firms.

The mobile revolution is rapidly changing how things are done in the financial industry. KEB will take whatever steps are necessary to meet this challenge, adding to its portfolio of custom-tailored banking services to meet the increasingly diverse needs of its customers and become Korea's leading electronic banking provider. We will also continue guarding against electronic banking security threats such as hacking and phishing.



INFORMATION & TECHNOLOGY

We strive to minimize the administrative burden on our front-line staff so that they can devote their attention to customer needs.

IT INFRASTRUCTURE

SUPPORTING STRATEGIC BUSINESSES

Many IT projects were undertaken in 2011 to support the operations of KEB's strategic businesses. We formed a strategic alliance with SK Telecom to establish a "smart branch," a new type of branch that will use advanced technology to service Bank customers via video conferencing at SK Telecom branches. Customers will be able to receive a variety of services from consultation on financial products to opening up accounts. The pilot branch will be completed by June 2012.

We recently completed building an electronic offshore credit review system to increase efficiency and productivity. Previously, only Korea-based credit reviews were processed electronically. We also revamped our comprehensive audit information



system. The goal was to create a risk-based audit structure that can deal with risks to branches and conduct our audits more efficiently by enhancing our ordinary audit operations and improving our audit administration processes.

A next-generation CRM system is being built to adapt to changes in our external environment, to be completed by the end of the year. This includes expanding the Bank's retail customer base and enhancing customer value; optimizing our IT infrastructure systems to reflect the results of studies on the best ways to promote channel sales; and strengthening our social media, customer experience management, and customer information protection activities.

We currently have ninety-three development projects being carried out by outside firms. They include building operational and analytical CRM systems and new technologies-based operations, such as mobile CRM, SNS, and GIS, and converting the user interface under the integrated terminal environment into a Web environment.

STRENGTHENING INTERNAL CONTROL

We are intensifying our internal control activities and reinforcing our regulations and guidelines to lessen the possibility of accidents and to protect confidential customer information. This includes making improvements to our internal control processes, enhancing our complaint management functions, and introducing new and better information protection tools.



RISK MANAGEMENT

KEB's advanced risk management programs and processes played a significant role in insulating the Bank from the numerous risks that arose as a result of the 2008 financial crisis.

CAPITAL ADEQUACY FRAMEWORK

In 2008, Korea's Financial Supervisory Service granted us permission to apply the advanced Basel II approaches to our risk measurement programs. This includes

the foundation internal ratings-based (F-IRB) approach for measuring credit risk, an internal model for measuring market risk, and an advanced measurement approach (AMA) for measuring operational risk. We are currently preparing for the implementation of the new Basel III capital regulations.

Since January 2007, KEB has been using the advanced approaches of the Basel II Capital Accord to calculate economic capital (also called internal capital) and establish a new capital adequacy framework. Its key feature is that banks must now separate quantifiable risks from non-quantifiable ones, and select and manage material risk. Credit, market, operational, interest rate, credit concentration, and strategic risks are all quantifiable, while liquidity risk is non-quantifiable but classified as a material risk. At the beginning of the year, the Risk Management Committee, a subcommittee of the Bank's Board of Directors, sets limits for quantifiable risks. The Risk Steering Committee reviews the Bank's capital adequacy every month and submits quarterly reports to the Risk Management Committee.

The Basel II advanced approach calls for an advanced international ratings based (A-IRB) approach to determining credit risk, an internal model to measure market risk, and the AMA approach for calculating operational risk. The confidence level must be at least 99.9%. A capital buffer of at least 8% of risk volume has also been set, along with a correlation matrix for integrating various risk volumes.

CREDIT RISK

KEB has been measuring credit risk according to the A-IRB approach since 2007. Measured credit risk volume is used to set and manage risk limits. Credit risk assessments cover rating systems, probabilities of default and losses given default estimates, and the retail credit scoring system. We also operate a risk-based pricing system that uses risk data to reflect expected and unexpected losses in our loan pricing calculations.

As of the first half of 2007, the Bank has been utilizing risk-adjusted performance measurement (RAPM) in each business unit by adopting risk-adjusted return on capital (RAROC) as an index. We began reflecting RAPM in setting business unit targets and evaluating their performances in the first half of 2008, and began reflecting RAPM in setting branch targets and evaluating their performances in 2009.

The Bank began calculating its regulatory BIS capital ratio to measure credit risk using the F-IRB approach in September 2008. Beginning in 2009, we have been setting bank-wide and business unit targets for risk-weighted assets (RWA) and examining them on a monthly basis. Our RWA management processes enabled us to maintain high levels of asset quality and capital adequacy during the 2008 financial meltdown.





MARKET RISK

In 2008, we acquired approval from the Financial Supervisory Service (FSS) to use our internal model, the 750-day historical simulation method. The Bank received the FSS's re-approval to change the internal model from the 750-day method to the 250-day method and measure stressed value-at-risk (VaR) reflecting the effects of the global financial crisis.

KEB uses the model to calculate and manage its BIS capital ratio. We manage market risk by monitoring our ten-day VaR limit, including stressed VaR, by business unit using the internal model. We perform stress testing daily, measuring possible losses under various scenarios. This enables us to be better prepared for possible crises which have not been reflected in recent market trends.

The Bank assesses the validity of its model every day by back-testing the P/L and 1-day VaR of the previous day. The amount of risk volume measured by the model is reflected when the Bank sets its risk limits. It has also been reflected in our RAROC target and business unit performance assessments since 2007.

OPERATIONAL RISK

KEB has been implementing operational risk limits based on AMA methodologies since 2007. In 2008, we put the Basel II, AMA-based control self-assessment program for internal controls and the risk-volume measurement of operational risk in place at our headquarters and all our domestic and overseas branches and subsidiaries. We calculate operational risk after AMA-based loss data has been collected and scenarios have been assessed.

We have been calculating AMA-based operational risk volume for each of our business units since 2008. Two percent of their operational risk volume is reflected in each business unit's RAROC. The FSS approved the Bank's AMA program in November 2008, and the Bank began adjusting it to calculate the BIS capital ratio at the end of March 2009.

We also established an Internal Control Council under the Compliance Department to strengthen our internal control. Its members include the heads of the Operational Risk, Compliance, Audit & Examination, and Finance Departments. We also use the FSS's 30 Common Key Operational Risk Indicators to monitor the degree of risk facing the Bank.

In 2012, KEB increased its capital limit governing operational risk so that it can fully absorb any unexpected losses that may arise in the future. This means that it can continue to operate under any circumstances.

Through business continuity management, we aim to provide our customers with access to our services anytime, even in the midst of an emergency or a disaster.

BS 25999

Certification

Implemented best practices in business continuity management

INTEREST RISK

KEB instituted a new asset liability management system in 2007, and since then it has been calculating interest rate risk using an advanced deterministic scenario method in terms of both economic value and earnings. It measures VaR, which represents the maximum expected loss of its net present value due to changes in interest rates, to calculate economic value. It uses earnings at risk (EaR), which represents the maximum expected loss of net interest income due to changes in interest rates, to measure earnings. In addition to these two metrics, the Bank monitors its re-pricing and duration gaps to review its interest rate risk profile, and conducts stress tests based on large and/or unexpected changes in market interest rates.

BUSINESS CONTINUITY PLAN

KEB has had a business continuity plan (BCP) in place since 2007. It enables the Bank to continue its operations even in the event of fire, typhoon, earthquake, terrorist activity, or civil disorder by ensuring that its computer operations continue to work.

Our Business Continuity Management Committee deals with interruptions to our operations caused by accidents or disasters. Its membership consists of the CEO and the managers in charge of personnel, finance, computerized systems, and BCP. We have also set up an alternate operating location which we can use if any of our other worksites become unavailable. It is located in southern Gyeonggi Province, thirty kilometers from our Head Office. We have also established an alternate, year-round Disaster Recovery Center. It can be used if problems arise within our IT and/or computer systems.

All of our branches have established procedures for responding to natural disasters like floods and earthquakes, as well as man-made problems like fires and power failures. They include designating two alternate locations. One is the nearest branch; the second is a branch located at least ten kilometers away.

We carry out simulation exercises at least once a year to enhance our employees' ability to cope with emergencies and ensure that we can resume operations as quickly and smoothly as possible. They are carried out without advance warning, in conjunction with our alternate worksites and the Sangam IT Center. The most recent simulation, which was held in October, simulated an earthquake affecting our headquarters.

In addition, we raised our BCP level by carrying out a branch-wide project lasting from the second half of 2010 until early 2011 that reflected changes in our operating environment. In February, 2011, we became the first bank in Korea to obtain a BS 25999 certification from The British Standards Institute. It was awarded in recognition of our superior abilities in the area of business continuity management. Going forward, KEB will continue with efforts to ensure that our customers can access our services anytime, even in the midst of an emergency or a disaster.

A woman with dark hair, wearing a pink and white striped shirt, is smiling and looking down at a young girl. The girl is lying on her back on a light-colored surface, also smiling broadly. The background is softly blurred, showing what appears to be a living room setting.

PROMOTING AN OPEN CORPORATE CULTURE AND A FOUNDATION FOR SHARING

KEB IS COMMITTED TO AN OPEN AND TRANSPARENT CORPORATE CULTURE. THIS INCLUDES PRACTICING ETHICAL MANAGEMENT AND COMPLYING WITH ALL OF THE RULES AND REGULATIONS GOVERNING KOREA'S FINANCIAL INDUSTRY.

WE ESTABLISHED THE KEB FOUNDATION TO ASSIST US IN FULFILLING OUR CORPORATE SOCIAL RESPONSIBILITY. WE RETURN A PORTION OF OUR PROFITS TO SOCIETY, PARTICIPATE IN COMMUNITY SERVICE ACTIVITIES AND PROVIDE VARIOUS FORMS OF ASSISTANCE TO THE LESS FORTUNATE BOTH IN KOREA AND ABROAD.

CORPORATE SOCIAL RESPONSIBILITY

The KEB Foundation, which was established in December 2005, was the first non-profit philanthropic organization set up by a Korean bank. It is responsible for directing our corporate social responsibility programs.

Two of the Foundation's main goals are helping children pursue their dreams and contributing to the building of a social safety network. The Foundation also engages in activities that reflect the Bank's role as Korea's premier international financial institution. This includes supporting multicultural families, migrant workers, and North Korean defectors, as well as undertaking overseas activities. Over the past seven years, the KEBF has spent approximately KRW 18.2 billion carrying out a broad range of social contribution activities.

CHILDREN SUPPORT PROGRAMS

The Foundation carries out a variety of activities to help children. They include support and educational programs for teenage heads of household, single-parent families, and children who live with their grandparents. It also sponsors outings for physically handicapped children in collaboration with Holt Children's Services and other helping facilities. In addition, it provides classes in economics to children of low-income families, with the Bank's employees serving as instructors. Another closely related activity is providing economics training to teachers at schools in isolated farming, fishing, and mountain villages in Korea.

One of the Foundation's most important child welfare activities is its One-to-One Sponsorship Program for needy

children at home and abroad, which is carried out in collaboration with World Vision, Korea Food for the Hungry International, and the Leftovers Love Sharing Community. Presently, 786 children are collectively receiving about KRW 252 million a year in financial assistance. We are also involved in a one-on-one mentoring program involving our employees and needy children and teenagers.

SUPPORT FOR LOW-INCOME FAMILIES AND THE UNDERPRIVILEGED

KEBF has been helping multicultural families since 2009 in various ways, including offering them financial assistance. In 2011, cash prizes of up to KRW 10 million were given to eighteen high-performing individuals and groups that assist multicultural families. In addition, the wives of such families were provided with an opportunity to visit their homelands or bring their parents to Korea.

Other activities undertaken in 2011 to lend support to multicultural families included language learning classes for children in low-income families in conjunction with the Korea Institute for Healthy Families, educating the parents of preschool children, hosting a badminton tournament, and sponsoring the training and evaluation of employees of multicultural family assistance centers.

Since 2008, we have been co-hosting an annual essay-writing contest with the Sookmyung Women's University Research Institute of Asian Women that encourages non-Korean wives to write about their experiences in Korea in their mother language. Thirty-three women won prizes in 2011. In addition, fourteen Thai housewives and their children visited their native homes through the Motherland Tour program, organized in cooperation with the Pearl S. Buck Foundation Korea to help the children of multicultural families find and retain their cultural identities.

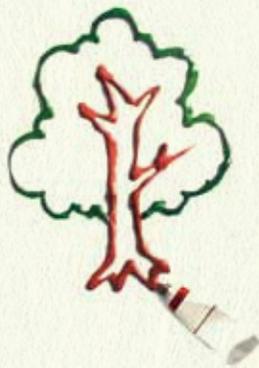


THE KEB FOUNDATION

COMMUNITY SERVICES

The “KEB Love Sharers” is a volunteer group with a registered membership of over 1,100 KEB employees and their families. Members volunteer their time at a wide range of social assistance facilities throughout the country. We also hold an annual blood donation drive, as well as a bank-wide charity campaign during the Lunar New Year and Chuseok (Korean Thanksgiving). From 2006, we have also been providing foreign workers with free medical treatment.

KEB employees also participate in overseas community service activities. For the past four years, KEB employees have been going abroad to countries such as Mongolia, Indonesia and Vietnam to build homes for low-income families in cooperation with Korea Habitat for Humanity. In 2011, thirty of our employees visited Mongolia for seven days to participate in building homes.



ACADEMIC SCHOLARSHIPS

The KEB Scholarship program, launched in 1989, is now run by the Foundation. It provided KRW 1,223 million in scholarships to 1,141 middle, high school, and university students from low-income families from 2006 to the end of 2011. Since 2007, the Foundation has also paid the expenses for fifteen KEB Scholarship recipients to attend English language study programs in the U.S.

In 2009, KEB signed an agreement to donate KRW 500 million to the Korea Student Aid Foundation (KSAF), which was established to offer financial assistance to students from low-income families in Korea. The Foundation's contribution has dramatically increased the number of KSAF scholarships. In addition, KEB's Overseas Scholarship Program has provided about KRW 460 million to 1,386 college students from low-income families in Vietnam, Indonesia, and the Philippines over the past six years.

The KEB Global Scholarship program was started in 2009 to assist students from developing countries who are studying at Korean universities. To date, KRW 123 million has been given to forty-one students, with twenty students receiving assistance in 2011. We are the first Korean bank to run a scholarship system for both Korean and non-Korean students.



INTERNATIONAL RELIEF PROGRAMS

KEB's assistance with international relief projects reflects its role as Korea's leading international bank. We have helped with repairs to damage from earthquakes in Pakistan, Haiti, and Chile, a tsunami in Indonesia, floods in Vietnam and Myanmar, earthquakes and volcanic eruptions in Indonesia, and typhoons in Taiwan and the Philippines. In 2011, we helped with recovery efforts from earthquakes and the massive tsunami in eastern Japan, as well as drought and famine in East Africa.

The Foundation has been continuously adding to the number of its overseas "Happy Home School" centers for children from low-income families, with the latest center built in Colombia in 2011. The first center was opened in Indonesia in 2006, followed by centers in Vietnam, Philippines and Uganda. The program includes scholarships for higher education, wells and water purification facilities as well as schoolbags, sneakers, and winter jackets.

We carry out free eyesight recovery operation clinics in collaboration with Vision Care Service. In 2011, more than 2,300 visually impaired people were treated in Ethiopia, Myanmar, and Bangladesh. We also operate a treatment program for facial disfigurement in conjunction with Global Care. We treated forty-three facially disfigured children in Vietnam in 2011.



SPECIAL PROJECTS

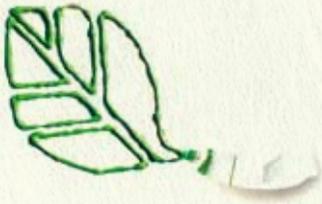
KEB executives donated part of their salaries to the Foundation at the end of 2009, creating a fund that was earmarked for special projects. Twenty projects were selected and have been carried out from 2010.

In 2011, we assisted with educational programs for children with behavioral problems, drama activities for children from multicultural families, and a home-building project and program to foster counselors for multicultural families. Our overseas projects included building a KEB School in Liberia in West Africa, assisting impoverished villages in India, and building community centers, providing vehicles for mobile clinics, and treating children with facial disfigurement in Vietnam.

In addition to the KRW 2.3 billion in funding that KEB provides for these social contribution activities, we rely on individual donations from our employees. They participate in a campaign to donate money to the Foundation, as well as a one-to-one sponsorship program targeting needy children in Korea. As of the end of 2011, 3,514 KEB employees were taking part in fund-raising activities every month, donating KRW 840 million annually.

In 2011, the Foundation received the grand prize (in the social contribution category) at the Korea Social Contributions Awards from the Korean Journalists' Forum. It also won the grand prize (in the corporate category) at the first SBS Hope Sharing for Tomorrow Competition, co-sponsored by SBS, the Ministry of Health and Welfare, and the Community Chest of Korea. It was also given an appreciation plaque by the Minister of Health and Welfare in recognition of its distinguished services in the area of volunteering.

CORPORATE ETHICS



KEB's reputation rests on the integrity of its operations, and its employees are committed to the highest standards of ethical behavior. The Bank pursues transparent business management practices through a comprehensive internal oversight system that protects the Bank and its customers, employees, and shareholders.

In addition to strengthening its internal control processes, KEB conducts organization-wide activities to prevent financial malfeasance. We also provide our employees with training in regulatory compliance and business ethics.

In 2009, we introduced a Compliance Manager program at our different regional headquarters to strengthen our internal oversight and regulatory compliance monitoring programs. Our overseas offices implemented an Overseas Compliance Officer system to emphasize the need for transparency, ethical management, and legal compliance. To enhance internal oversight at our overseas branches, we have been taking measures to reinforce the independence of our Overseas Compliance Officers and improve the compliance reporting system.

In 2007, KEB became the first Korean financial institution to implement an independent ombudsman system, which we applied globally two years later. The KEB Ombudsman is completely independent, thereby ensuring the confidentiality of whistleblowers.



COMPLIANCE

[Establishing a bank-wide compliance support system](#)

The building of a bank-wide compliance support system was completed in 2011. Its computerized management processes allow the Bank to carry out its compliance operations while reducing the duties of its Compliance Officers. For example, compliance activity reports, which used to be done manually, are now prepared by the system.

ANTI-MONEY LAUNDERING

In 2011, KEB received an "excellent" rating in an assessment of the implementation of anti-money laundering standards by the Korea Financial Intelligence Unit. The study covered seventeen banks.

