ADVANCING TOWARDS THE FUTURE

KOREA EXCHANGE BANK 2012 ANNUAL REPORT

KEB Korea Exchange Bank

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.

CONTENTS

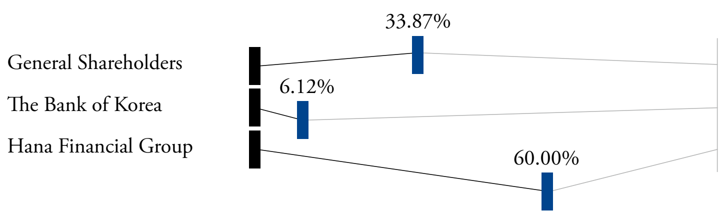
PROFILE

KEB was founded in 1967 as a state-sponsored bank specializing in the area of foreign exchange. We went on to become Korea's leading bank in the additional areas of trade finance and international finance, making significant contributions to the country's economic growth in the 1970s and 1980s. In the midst of the Asian financial crisis of 1998, 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 shaping our competitive edge.

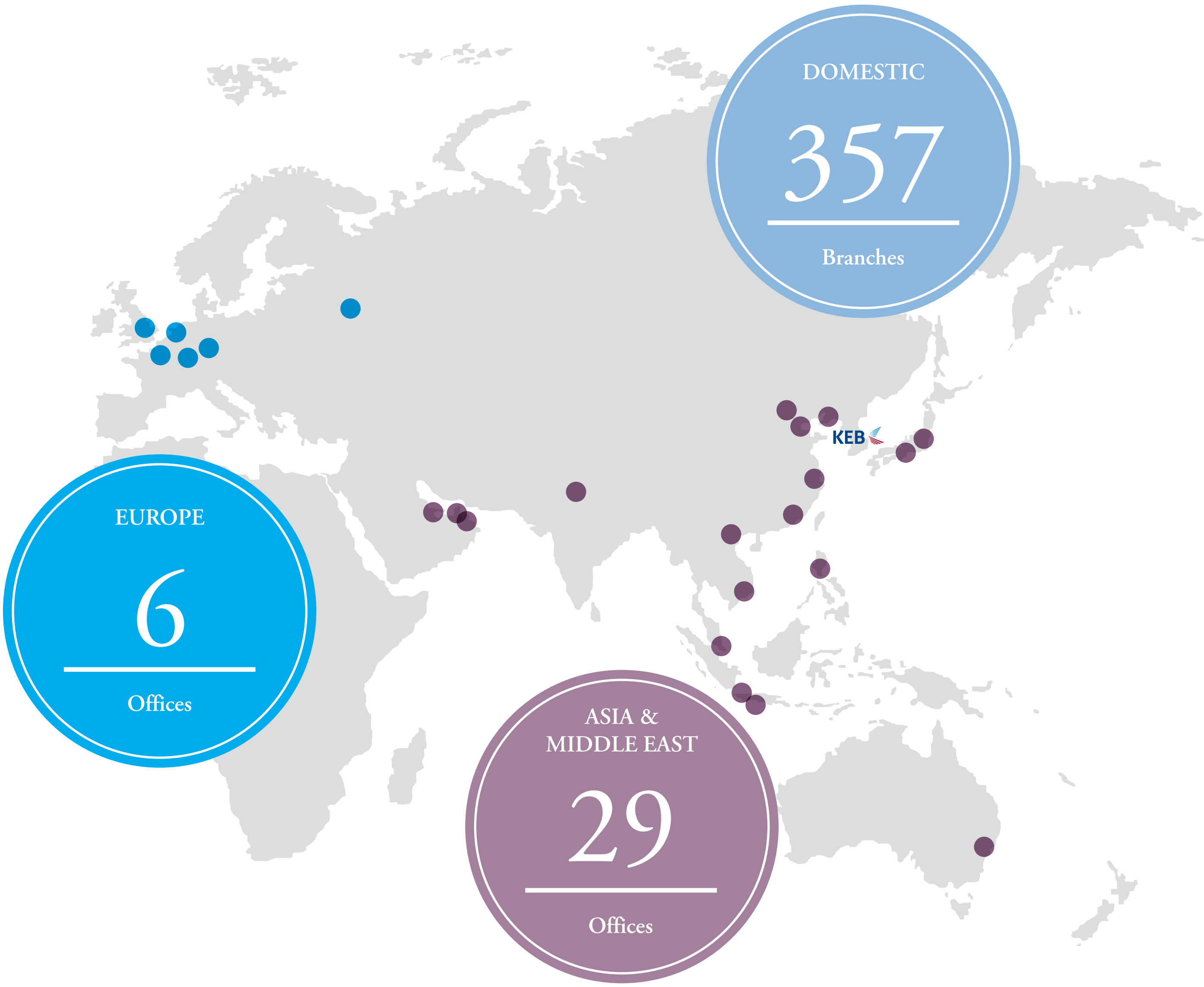
In 2012, we turned over a new leaf by becoming a proud member of Hana Financial Group. One of our most important initial steps was to resolve our corporate governance issues. In addition, we continued with our commitment to becoming our customers' most trusted financial partner, as well as the best global bank in all of Korea. This helped us to earn plaudits from some of the world's best-known finance journals for our expertise in the areas of foreign exchange and trade finance. For instance, *Global Finance* named us the Best Foreign Exchange Provider in Korea for the eleventh consecutive year.

SHAREHOLDERS

(As of February 2013)

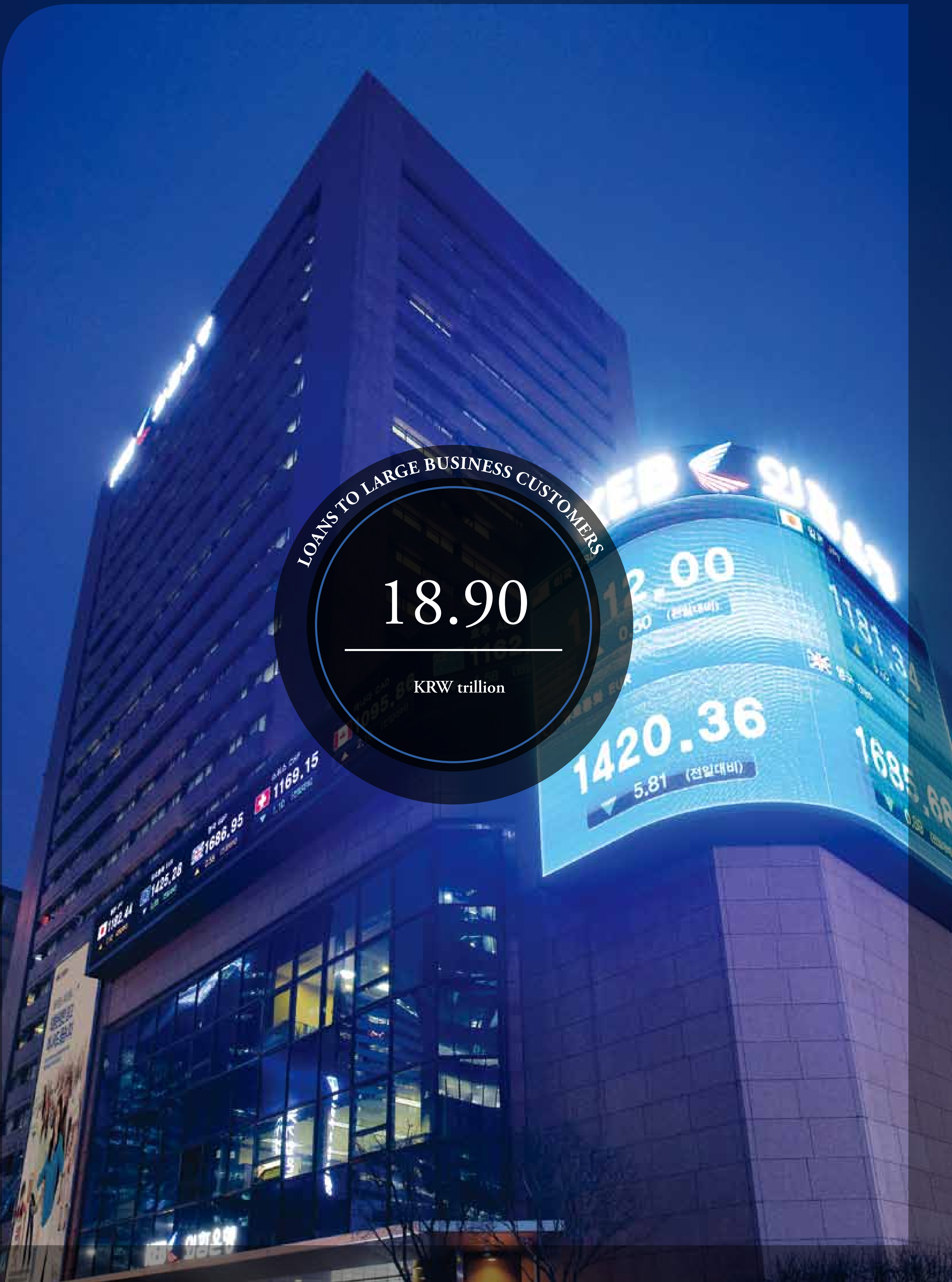


GLOBAL PRESENCE



KEB boasts the largest global network in Korea, comprising fifty two offices in twenty-two countries around the world as of the end of 2012. This includes a branch in Abu Dhabi that we opened in December 2012. Besides making us the first Korean bank to enter the UAE, this move gave us the largest operating network in the Middle East, including a branch in Bahrain and an office in Dubai.

We also won approvals from local authorities to open a branch in Clark, the Philippines, and an office in Istanbul, Turkey. Going forward, KEB will grow into Korea's best global bank by revamping its branches in the U.S and establishing new ones in Chennai, India, and Sydney, Australia.



LOANS TO LARGE BUSINESS CUSTOMERS

18.90

KRW trillion

Working Together.
Winning Together.

KEB is committed to building trust-based relationships with its corporate customers and growing in step with them. Our awareness of the importance of small- and medium-sized enterprises is reflected in the comprehensive support programs that we offer them, including preferential measures, improvements to their operating systems, and assisting with their overseas expansion plans through our SME Global Center. Our underlying goal is to contribute to the development of Korea's financial industry and economy.


NUMBER OF KEB 2X CARDS ISSUED
700,000
As of December 31, 2012

Going Together.
Growing Together.

A bank's most valuable assets are its customers. KEB earns its customers' trust and respect by listening to them and acknowledging the value of their opinions. We are striving to develop a wide variety of financial products and services that meet the increasingly diverse needs of our customers. They include online and mobile platforms, and converged services.


FOREIGN EXCHANGE MARKET SHARE
48%
Cumulative total in 2012

Expanding Together.
Succeeding Together.

KEB has embraced innovation and change at every step it has taken forward. Ever since our founding in 1967, we have been adding to our overseas operations as a means of providing Koreans and their business both at home and abroad with a wide variety of financial products and services. We are particularly committed to enhancing our strengths in our specialty areas of foreign exchange, trade finance, and international banking, to ensure that we maintain our leadership in those markets.

FINANCIAL HIGHLIGHTS

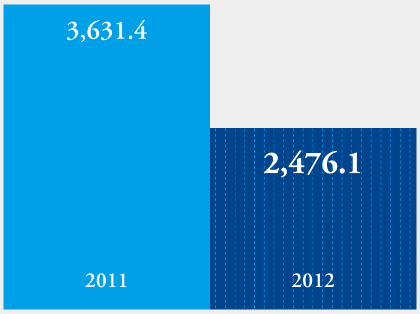
(in billions of KRW)

	2011	2012
INCOME STATEMENT		
Total Income	3,631.4	2,476.1
Net Interest Income	2,549.9	2,466.0
Net Commission Income	247.5	178.6
Non Interest Income	834.0	(168.5)
Total Expenses (G&A)	1,490.6	1,573.0
Operating Income	2,140.8	903.1
Net Income	1,654.7	658.9
PROFITABILITY INDICES		
Net Interest Margin (NIM)	2.62%	2.36%
Return on Assets	1.45%	0.61%
Return on Equity	17.78%	7.46%
BALANCE SHEET (INCLUDING TRUST ACCOUNT)		
Total Assets	100,497.0	104,001.2
Total Credits	67,944.3	70,354.0
Total Deposits	64,429.6	66,781.6
ASSET QUALITY		
NPL Ratio	1.18%	1.19%
NPL Coverage Ratio	145.1%	140.9%
Precautionary & Below Ratio	2.67%	2.89%
Precautionary & Below Coverage Ratio	64.4%	58.0%
Delinquency Ratio	0.59%	0.62%
CAPITAL ADEQUACY		
BIS Ratio	14.48%	13.59%
Tier I Ratio	11.95%	11.06%
Tier II Ratio	2.53%	2.53%

Note) The figures for 2011 and 2012 are based on K-IFRS. (NIM and asset quality: non-consolidated, other figures: consolidated)

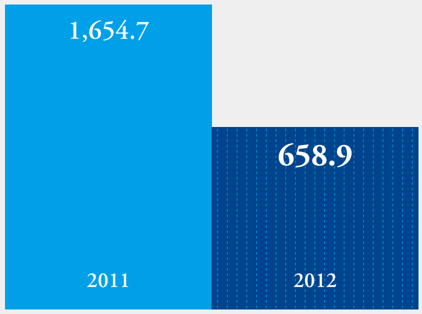
TOTAL INCOME

(in billions of KRW)



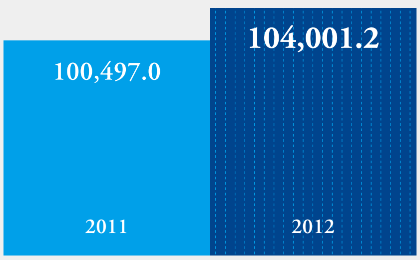
NET INCOME

(in billions of KRW)



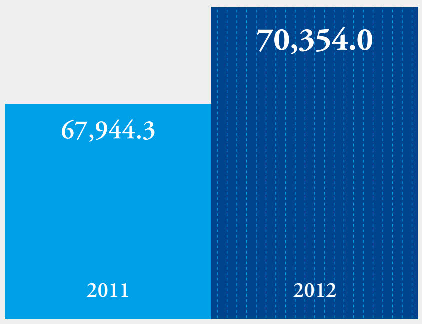
TOTAL ASSETS

(in billions of KRW)

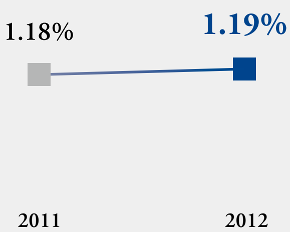


TOTAL CREDITS

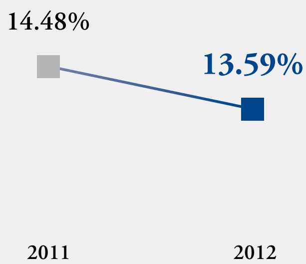
(in billions of KRW)



NPL RATIO



BIS RATIO



A LETTER TO CUSTOMERS AND SHAREHOLDERS FROM THE PRESIDENT & CEO

Dear valued customers and shareholders:

First of all, I would like to thank all of you for your kind encouragement and support as KEB continues adding to its record of growth and development.

As you all know, 2013 is the Year of the Snake. According to Chinese mythology, snakes symbolize longevity, immortality, and transformation. Since transformation is a very positive indicator of change, we at KEB believe that this year will be an opportune time for us to seize our powers of creativity and innovation and take another brave step forward. I feel very fortunate and honored to be the president and CEO of KEB in this situation.

In contrast, the year 2012 was a very difficult time for everyone, both at home and abroad. The main problems confronting the advanced economies in the world were economic slowdowns in the U.S. and the sovereign debt crisis in Europe. Since the world is so inter-connected now, these difficulties also had a domino effect on the economies of emerging countries, including China, leading to a slowdown in the entire global economy.

Despite these challenges, everyone at KEB did their very best to make KEB bigger and better. Because of our employees' hard work and dedication, we made significant progress in strengthening our revenue base for future growth, even though some of our results came in below our expectations.

We posted KRW 658.9 billion in net income last year. Although this was a significant decline from our 2011 figure, it needs to be taken in the context of an extraordinary gain of over KRW 1 trillion (before income taxes) from the sale of our shares in Hyundai Engineering & Construction that year. This also caused the value of the securities that we sold to fall by more than KRW 900 billion Year on Year. The overall net interest margin in banking sector also decreased, due to the Bank of Korea's rate cuts during the year. This occurred two times. In addition, revenue from our credit card operations sank because of tighter government regulations regarding their use.

On the expense side, our sales and general administrative expenses and our loan loss provisions both increased, due to the need to add to our retirement allowance reserve and other cost factors. These included strengthened guidelines for loan loss provisions that were imposed on the country's financial institutions by the Financial Supervisory Service.

Our reduced net income caused our ROE to fall to 7.4%, down from 18.6% in 2011, while our ROA went down to 0.6% from 1.6%. On the plus side, the bank's capital adequacy remained intact, with our BIS capital ratio and Tier 1 ratio standing at 13.6% and 11.1% at the end of the year.

13.6%

BIS ratio

658.9

2012 Net income (KRW billion)

In 2012, everyone at KEB did their very best to make KEB bigger and better. Because of their hard work and dedication, we made significant progress in strengthening our revenue base for future growth.

We ended the year with a NPL ratio of 1.19%, up from 1.18% a year earlier. Our NPL coverage ratio also remained stable at 140.9%, down marginally from 145.1% at the end of 2011.

Now I want to talk about the steps that we took to strengthen our revenue base for sustainable growth.

To begin with, we built a firmer foothold for long-term growth. This included restoring our customer base with "KEB's 'Fresh Start' Customer Appreciation Event" which we launched last March. Because of it, our number of customers increased by about 0.4 million. We also took steps to restore our sales base, which had been weakened due to our past reliance on a short-term, performance-oriented operating strategy. This resulted in a rise in the value of our won-currency loans of approximately KRW 3.9 trillion over the year. Our total credit also grew, rising by KRW 3.2 trillion to KRW 76.3 trillion.

Our leading position in the country's FX and trade finance sectors continued apace, despite increased competition from other banks. We boasted market shares of 48%, 36%, and 30% in the areas of FX, exports, and imports, respectively.

These successes helped us to win a number of awards and accolades. For instance, *Global Finance* named us the Best Foreign Exchange Bank in Korea for the eleventh consecutive year. It also selected us as the Best Bank in Korea in its Emerging Market Banks in Asia category, due to our acknowledged leadership in foreign exchange and trade finance. This included earning the highest marks for asset size, profitability, strategic relationships, customer service, competitive pricing, and innovative products.

In 2013, we expect that Korea's business conditions will remain challenging. There are still many uncertainties confronting the global economy, and these will of course impact on Korea. As a result, the domestic banking industry will continue to be plagued by low growth and narrow margins for the foreseeable future.

Given these many challenges, it is obvious that Korea's banking sector needs to adopt new management strategies if it is to survive and thrive. I can promise you that all the staff members at KEB will take up the challenge of creating new opportunities for growth in this very troublesome business environment, and ensure that we continue evolving into the very best global bank in Korea. To guarantee that this happens, our managers will carry out the following key strategies:

First, we will continue strengthening our mid- to long-term foundations for growth.
This year, our emphasis will be on asset growth, with a special focus on high-quality assets. This will include seeking out new sources of revenue; increasing our asset portfolio of small- and medium-sized enterprises, or SMEs; and strengthening our customer base and improving our asset quality by extending more loans to low-risk retail customers. We will also concentrate on strengthening our cost controls, and raising our profitability and capital efficiency by increasing our key deposits.

Second, we will strengthen our sales capabilities.
We will continue to differentiate our services and strengthen our position in the FX market in Korea by investing in more FX-related infrastructures and hiring more highly-talented human resources. We will also make ourselves more attractive to corporate and retail customers by strengthening our marketing by stage for SMEs' life cycle and adding to differentiated products for individual customers.

Third, we will arm ourselves against uncertainties in our business environment by strengthening our risk management.
There are a number of steps that we will take to buttress our risk management systems. They include guarding against risks and uncertainties both at home and abroad, and responding to the Basel III Accord's proposals regarding capital adequacy. We will also make adjustments to our internal control and management and our customer information protection systems. And, we will put an overseas risk management support system in place to backstop our expansion activities outside of Korea.

Finally, we will take steps to increase our synergies with Hana Financial Group.
Last year, we undertook sweeping organizational reforms of our head office and business groups, focused on maximizing our sales capability. This year, we will add to our efficiency on a bank-wide level by putting mechanisms in place that will encourage collaboration between our business groups. In addition, we will boost synergies within the entire Hana Financial Group by increasing cooperation among our business groups and the Group's other subsidiaries.

Once all of these improvements have been made, KEB will be well on its way to becoming the most trustworthy financial partner in all of Korea, as well as its best global bank. I look forward to your continuing support and encouragement, and hope that you and your families will be blessed with health and happiness in 2013.

Thank you.

Yong-Ro Yun
President & CEO

Vision and Mission

Our vision is to be Korea's best global bank.

CUSTOMER

To ensure customers' happiness: Dedicate ourselves to their financial security and success.

KOREA EXCHANGE BANK

KEB

VISION AND MISSION

EMPLOYEE

To ensure employees' happiness: Develop a workplace that welcomes challenges and change, and celebrates individual successes.

COMMUNITY

To ensure communities' happiness: Fulfill our roles and responsibilities as a member of the larger community.

SHAREHOLDER

To ensure shareholders' happiness: Add to their value through the sound management of KEB.

KEB's mission is to promote the happiness of all its stakeholders. We will do this by leveraging our expertise and worldwide network to link market opportunities in Korea and the rest of the world. This is a major part of our commitment to satisfy all of our stakeholders by supporting their business and growth to succeed in their field.

REVIEW OF OPERATIONS

KEB carried out a number of structural reforms and achieved meaningful growth in many of its businesses in 2012. This included adding to the growth and stability of such business areas as Global & Corporate Banking, Retail Banking, Card Banking, E-Business, Infrastructure, and Risk Management.

Going forward, we will continue with our goal of being a bank that is trusted and respected by its customers, and recognized and applauded by the market. We will do this by maximizing our customer, shareholder, and investor satisfaction levels and adding to the value of their financial assets.

KOREA'S MOST POPULAR PARTNER FOR GLOBAL BANKING

CORPORATE & GLOBAL BANKING

Best Emerging Market Bank in Asia by *Global Finance*

Best Foreign Exchange Provider in Korea by *Global Finance*

Best Foreign Exchange Bank in Korea by *Asiamoney*

LARGE CORPORATE BANKING

The bank's Large Corporate Banking Group, or LCBG, deals exclusively with Korean conglomerates that are operating globally. It is headed by Senior Relationship Managers (or SRMs), all of whom are experts in traditional banking services but also boast added strengths in such areas as project finance, shipping finance, and M&As. The LCBG recorded an operating income of KRW 286.7 billion in 2012.

In 2012, the total credit to its large corporate customers increased by KRW 0.77 billion (or 4.2%) to more than KRW 18.90 trillion. The LCBG also contribute to KEB's market leadership in trade fiancé. It carried out USD 151.0 billion worth of export transactions with large corporations in Korea (representing 27.5% of the total). And it also carried out USD 105.5 billion worth of import transactions (representing 20.3% of the total).

The LCBG also carries out collaborative marketing activities with other KEB business units to offer various financial products and services requested by corporate customers. In addition, many of the overseas subsidiaries, employees, and business partners of the customers have also become KEB's customers, helping its other business units to broaden their customer base.

The LCBG is also expanding the scope of its KEBiNet service, which assists the bank's corporate customers with their globalization strategies. We also offer them new market-leading trade finance precuts such as e-Nego service and SWIFT TSU-related transactions.

Going forward, the LCBG will diversify its income sources by adding to its number of fee-based operations and expanding its customer base. It will also increase its high-quality assets to ensure continued and sustainable growth.

SME BANKING

KEB's Corporate Banking Group, or CBG, focuses on serving the needs of small- and medium-sized enterprises, or SMEs. In 2012, we posted our best-ever results since 2010 in a host of areas, including total loans. This happened despite weakened economies in and outside of Korea due to the ongoing sovereign debt crisis in Europe.

The total corporate loans increased by 5.6% YoY, or KRW 1 trillion, to KRW 19 trillion. Loans to high-quality businesses accounted for 61.2% of this figure, up 1.4% points. Loans to SMEs were worth KRW 9.2 trillion, similar to 2011.

Total deposits rose by KRW 1.3 trillion (or 8.6%) to KRW 16.5 trillion, while foreign exchange transactions grew by KRW 8.1 billion (or 7.2%) to KRW 119.0 billion, helping us to retain our position as Korea's leading foreign exchange bank.

We also carried out a "KEB's 'Fresh Start' Customer Appreciation Event" as part of our effort to increase the sales capacity of our employees. This helped to increase our number of customer accounts to 73,000, up 4.9% (or 3,400 accounts) from the previous year-end.

The LCBG's operating income

286.7

KRW billion

In 2013, KEB's strategies for achieving healthy growth will include increasing the value of its assets and expanding its customer base. Because of the importance that we attach to our SME customers and SME loans, we will take particular care to enhance the systems and preferential support programs that we extend to that sector. We will also enhance the brand power of our corporate banking operations by retaining our leading market share in the foreign exchange market and our competitive advantage in trade finance.

INVESTMENT BANKING

KEB's investment banking business suffered from a difficult operating environment in 2012 due to weak economies around the world. Despite this, we fared well in many of our key strength areas, such as M&A financing, structured financing, and project financing. We also took a series of steps to diversify our earnings sources. This included developing promising growth engines, such as resources development financing and public-private partnership-type real estate project financing. Another plus was the generation of significant synergies in tandem with our Large Corporate Banking Group and International Banking Group. We also established a new IB Department to strengthen the competencies of our IB banking sector.

Although we believe that the IB industry's operating environment will remain problematic in 2013, we are very hopeful that our entry into Hana Financial Group will give us a new opportunity to grow and prosper going forward.

Our corporate and global 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.

Since the IB Division is one of the main contributors to the bank's mid- to long-term growth plans, it has devised a set of strategies to enhance its capabilities in its key strength areas, reduce its weaknesses in others, and identify promising new operating areas.

Our first goal is to enhance our profitability. This will include strengthening our systems so that we will have more opportunities for arranging and participating in deals in collaboration with our branches. This will help in expanding our commission business. We will also increase our range of high-yield investments by diversifying our portfolio.

We will also continue treating our overseas IB operations as promising new sources of growth – especially in terms of non-Korean deals. This will include advancing into overseas markets that have a demonstrably high potential for growth, in linkage with the bank's overseas network and IB organization.

Our third goal is to diversify our revenue sources by developing new business models and products, including joint offerings. This will include advancing into promising growth industries, such as energy and power generation; using mezzanine financing to develop hybrid products in such areas as loans, funds, and pensions; gaining an early edge in the real-estate development focusing on public welfare; and launching financial arrangement-related B2C products in tandem with the Group's affiliated companies.

Foreign exchange transactions

47.5%

Market share

FOREIGN EXCHANGE & TRADE FINANCE

KEB is Korea's leading foreign exchange and trade financing bank, boasting the nation's largest network of international branches and its most extensive foreign exchange and trade financing operations. In 2012, our share of foreign exchange transactions handled by the country's top seven commercial banks was 47.5%, including 24.2% of the money exchange sector. In the area of trade financing, we recorded an industry-leading market share of 35.5% for export financing and 30.0% for import financing. These very solid performances won us plaudits from a number of well-known financial publications. They included being named the Best Foreign Exchange Provider in Korea for the eleventh consecutive year by *Global Finance*, the Best Foreign Exchange Bank in Korea for the fifth consecutive year by *FinanceAsia*, the Best Trade Finance Bank in Korea for the fifth consecutive year by *Corporate Treasurer*, and the Best Domestic Provider of Foreign Exchange Services for the second consecutive year by *Asiamoney*.

We developed a wide range of new products and services to buttress our industry leadership in 2012. In February, for example, we began offering a Customized CNY Remittance Service, which allows a fixed amount of Chinese yuan to be remitted to recipients even if settlements have been made in US dollars.

In March, we launched a Preferential Long-Term Foreign Currency Time Deposit product, which offers holders higher-level interest rates for deposits with a term in more

KEB was named the Best Foreign Exchange Provider in Korea for the 11th consecutive year by *Global Finance*, the Best Foreign Exchange Bank in Korea for the 5th consecutive year by *FinanceAsia*, the Best Trade Finance Bank in Korea for the 5th consecutive year by *Corporate Treasurer* and the Best Domestic Provider of FX Services for the 2nd consecutive year by *Asiamoney*.

than one year. We also started offering a Foreign Currency Gift Service the same month. It allows customers to send small-sum foreign currencies by SMS or email to recipients from the bank's Web site.

In May, we initiated an Exchange Biz Master Service that allows exchange business operators to computerize and develop a database for their transaction data, instead of having to do it manually. It also provides them with an entire menu of forms needed to produce reports for the Bank of Korea. The following July, we created a foreign exchange consulting team – including a foreign exchange desk exclusively for the use of the Korea Federation of Small and Medium Business.

In August, we began offering a Special Fund to Support Exporters' Negotiation, which allows Korean exporters to take advantage of lower interest rates than the fixed Nego ones. It will help them reduce their financial expenses by limiting their amount of Nego to USD 500 million.

We launched a Foreign Transfer Import L/C Service. It enables domestic importers to present letter of credit to trade agencies located in Korea, instead of to overseas exporters. When this is done, the trade agencies transfer the letters to the overseas exporters, complete with all the new conditions, such as amounts and shipping dates.

In November, we introduced a Shipping Insurance Service in alliance with Hyundai Marine & Fire Insurance. It saves customers' time and money by offering them advice on insurance and allowing them to apply for coverage and print their policies directly from our Web site. We also helped to make international deals safer and more secure by offering a Smart Escrow Service for trade, invisible trade, and capital transactions.

In addition to this, we provided training in foreign exchange and import- and export-related laws and regulations to 103 companies. We also advised them on their management of foreign exchange-related disputes and helped them to improve their foreign exchange and importing and exporting processes. Other services that we provide include processing money transfers in twenty-six currencies, offering money exchange services in forty-two currencies, and handling transactions in more than one hundred currencies, making us the country's undisputed foreign exchange leader.

Multi-currency interbank transfers

84%

Market share

CLS SETTLEMENT & CLEARING

The Continuous-Linked Settlement, or CLS, refers to the no-risk, 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 as one of seventeen CLS-eligible currencies. This happened in December 2004. Since then, KEB has been acting as the Settlement Member of and the Korean won liquidity provider for CLS Bank International, helping to ensure stability in Korea's financial markets.

KEB began extending CLS settlements to non-deliverable forward (NDF) contracts in July 2008, starting with foreign exchange trades. It is now preparing to expand into new product areas, such as foreign exchange option premiums. Korea's Financial Supervisory Service, or FSS, is also planning to allow securities, insurance, and investment companies to participate in CLS settlements as soon as possible. This will increase CLS settlement volumes even more.

KEB currently handles foreign exchange deals through the CLS for nine of Korea's thirteen domestic banks and one of the Seoul branches of the country's foreign banks, accounting for 72% of the nation's total CLS TP Service market. It also offers the CLS KRW Nostro Service, acting as an agent bank for foreign settlement members settling

KEB has been providing a multi-currency interbank clearance service for local and overseas banks since 1967. In 2012, we processed 2.9 million inter-bank transfers, accounting for 84% of the total number of inter-bank foreign currency transfers in Korea. It does this for sixty-two branches of local and foreign-owned bank in Seoul and 131 overseas banks.

KRW in CLS. KEB currently serves nine of these fourteen banks, accounting for 64% of the CLS KRW Nostro Service users.

We have also been providing a multi-currency interbank clearance service for local and overseas banks since 1967. In 2012, KEB processed 2.9 million inter-bank transfers, accounting for 84% of the total number of inter-bank foreign currency transfers in Korea. It does this for sixty-two branches of local and foreign-owned banks in Seoul and 131 overseas banks.

We have also been busy upgrading our IT platforms and developing new products to meet the growing volume of SWIFT traffic in such areas as payments, trade financing, treasury, and securities. Our inter-bank clearing service boasted a record straight-through processing ratio of 93% in 2012. KEB has also been providing eFIall services, an Internet-based foreign currency transfer and inquiry system, since 2005. It offers real-time online interbank clearing services to both local and foreign banks.

We also offer Korean won-related services and regulatory advisory services to foreign banks. This is done to meet the rising demand for Korean won settlement in the market, as well as the ongoing liberalization of the currency that is being driven by the FSS. Our track record of expertise, reliability, and reputation in both CLS and inter-bank clearing arenas is paving the way for KEB to become Asia's primary clearing hub for both domestic and overseas banks.

CUSTODY & FUND ADMINISTRATION

KEB is also Korea's primary custodian bank. Our custody and fund administration services boast a large customer base both inside and outside of Korea, including institutional and foreign investors and government entities. In 2012, the value of our assets held under custody was KRW 77 trillion. Our high-quality, fee-based services include acting as a securities lending, paying, and escrow agency, as an SPC trustee, and as a custodian. In 2012, KEB was named the Best Sub-Custodian Bank in Korea by *Global Finance* for the fourth time.

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

INTERNATIONAL BANKING GROUP

OVERSEAS OPERATIONS

KEB's International Banking Group has been offering Korean customers heading overseas a broad range of financial services ever since the bank's founding in 1967. The Group's fifty-two locations in twenty-two countries, including ten local subsidiaries, thirteen branches, five representative offices, and twenty-four sub-branches, constitute Korea's largest global network. In 2012, the Group's operating income was USD 175.1 million, representing 13.6% of the bank's total operating income. We also boast the nation's largest network in the Middle East, including a branch that we opened in Abu Dhabi in December 2012. Going forward, we are planning to enhance our operations in the Middle East and Africa through our base in Abu Dhabi and our other offices in Bahrain and Dubai. In December 2012, we obtained approval to establish an office in Turkey, which will open in 2013. This will provide us with a foothold in southern Europe and Central Asia.

Another step that we will take in 2013 is the establishment of a branch in the city of Chennai, India. We are doing this because Korean-based companies are making significant inroads in that country in such areas as the auto industry. Our goal is to provide these businesses with a full range of financial services that they are currently finding difficult to access. We are also planning to open a branch in Clark, the Philippines, and an office in Jeruk, Indonesia. Due to ongoing wage increases in China, both of these countries are now undercutting that nation as alternative production bases. Our role will be to support companies that are already there, as well as ones that will soon be transferring their production bases.

FOREIGN CUSTOMER DIVISION

KOREA'S MOST PREFERRED BANK FOR FOREIGN CUSTOMERS

Foreign residents and businesses in Korea have always represented a promising marketing opportunity for KEB. There were about 1.4 million legally registered foreigners living in Korea in 2011, and about 14,000 foreign-invested enterprises. The bank's Foreign Customer Division (FCD) was established in January 1995 to tap into this market.

RETAIL BANKING

KEB's Foreign Customer Division is charged with developing banking services that cater to the needs of foreign residents living in Korea. It operates three Foreign VIP Centers and nineteen Global Desks. They are staffed by fully trained, multilingual bankers who can advise non-Koreans on such matters as opening a bank account, applying for a credit card, and sending money back home when their stays in Korea end. In addition, the FCD takes part in a host of cultural events that help non-Koreans make their stay in the country more pleasant.

CORPORATE BANKING

KEB offers a wide range of e-banking platforms to foreign-invested enterprises, or FIEs, operating in Korea. Although many of them are classified as SMEs owing to their limited local operations here, KEB takes their parent companies' size, credit rating(s), and other information into account when evaluating their creditworthiness. This means that we are able to provide them with more flexible borrowing arrangements than our competitors can.

The Foreign Customer Division has fifteen branches spread across the country that service FIEs. It also leverages KEB's extensive overseas network to offer a wide range of financial services to the parent and/or sister companies of FIEs operating in Korea.

FOREIGN DIRECT INVESTMENT

KEB also has a team of highly specialized Foreign Direct Investment (FDI) consultants that assist FIEs operating in Korea. Their services include assisting FIEs with filling out FDI reports, establishing new business entities, setting up financial management systems, and forming ties with many FDI-related institutions, such as Korean law and accounting firms, international trade and investment bodies, the Korea Trade-Investment Promotion Agency (KOTRA), and foreign chambers of commerce and embassies in Korea. In 2011, KEB boasted 34.2% of the country's FDI notification market, serving more than nine hundred FIEs that were established that year.

MEETING THE NEEDS OF EACH AND EVERY CUSTOMER

RETAIL BANKING

KEB Crossmile Card won the Outstanding New Card Launch by American Express

KEB won the Highest International Authorization Approval Rate Award by Visa

CUSTOMERS

In 2012, KEB's Retail Department concentrated on retaining its current customer base and regaining the business of people who had left it in the past. This strategy included a "KEB's 'Fresh Start' Customer Appreciation Event." As a result, the bank's total number of customers who have accounts increased by 125,000 from the year before. The number of active ones rose by 52,000.

Our business tie-ups with educational institutions, National 119 Rescue Services, the National Emergency Management Agency, and others also added to our retention rate of prime-quality customers. We also hired a number of native speakers from such countries as Nepal, Bangladesh, Thailand, and China, making it easier for us to deal with foreign workers and strengthening our relationships with their communities in Korea.

Our Q'Plex smart branch is scheduled to expand its "Portable Service" in 2013. This will include introducing a direct customer marketing service to support our multi-sales channels. We will also provide our customers with more custom-tailored services, using a new-generation CRM system that we established at the end of 2012. This will also provide our branches with more upgrading and cross-selling opportunities.

DEPOSITS

The total value of deposits in the bank increased by KRW 3.1 trillion won, up about 6.5% from the previous year's KRW 2.9 trillion. Time deposits and core deposits, excluding MMDAs, grew by KRW 0.2 trillion (or 1.2%) and KRW 0.5 trillion (or 5.9%) to KRW 14.6 trillion and KRW 8.4 trillion, respectively. We will add to our deposit in 2013 by carrying out a wide range of promotional and marketing activities targeting lower- and middle-income earners.

HOUSEHOLD LOANS

The value of the bank's household loans increased significantly as a result of our focus on mortgage loans and high-quality loans. It grew by KRW 1.8 trillion (or 9.2%), going from KRW 19.6 trillion in 2011 to KRW 21.4 trillion in 2012. The value of our mortgage loans grew by KRW 0.7 trillion (or 5.5%) to KRW 13.5 trillion. We will continue to enhance the value of our loan portfolio in 2013 by continuing with our policy of focusing on mortgage loans and high-quality loans.

Despite our constant efforts to manage assets soundness, our delinquency ratios still went up, due to Korea's economic slowdown in 2012. For example, our level of non-performing loans went from 0.33% in 2011 to 0.38% in 2012, while our delinquency ratio of 0.42% in 2011 rose to 0.50% in 2012.

Household loans

21.4

KRW trillion

PRIVATE BANKING

KEB boasts a full menu of services to help its VIP customers invest and manage their assets profitably and efficiently. Our objective is to make KEB the first choice for users of Korea's highly competitive PB market. Our Private Banking products and services help customers to broaden their portfolios with a slew of stock, insurance, and foreign exchange-related investment instruments.

In addition, we offer a full slate of advice and services regarding taxes, wills and inheritances, real-estate management and disposals, business successions, specialized financial planning, and overseas education and emigration. We were operating ten Wealth Management Centers and seventy-six specially designated PB Branches as of the end of 2012.

We also provide an unparalleled level of custom-tailored services and benefits to select VVIP customers, including specialized advisory services and such invitation-only events as asset management seminars. In addition, we are taking advantage of our expertise and experience in such areas as foreign exchange and overseas banking to extend our services to Koreans living abroad.

BANCASSURANCE

KEB initiated a bancassurance channel in September 2003, when the Korean market was opened to international competition. The sector has grown steadily since then, thanks to our various partnership agreements with Korea's leading insurance companies and our ongoing training of specialists versed in its operations. We have also developed a variety of low-cost annuity and endowment insurance plans that offer more benefit to retail customers. In 2012, most of new saving insurance policies were sold through this channel, making up as much as 80% of the total.

According to an analysis conducted by the FSS, initial premiums for insurance policies sold by Korea's life insurance companies through their bancassurance channels in the first half of FY 2012 accounted for 71.6% of their total sales. A further 19.5% were sold by insurance planners, with 5.3% being processed by agents and 3.6% by employees in-house. The survey also found that the share of life insurance products sold through bancassurance channels to the total surged by 26.8% points, while those for sales by employees and insurance planners fell by 14.4% points and 8.8% points, respectively. The share of non-life insurance products sold through bancassurance channels to the total also increased by 4.8% points, while sales by their insurance planners and agents declined by 2.4% points and 1.6% points, respectively.

In overall terms, growth within the bancassurance sector is largely attributable to healthy sales of what is termed immediate annuities. The popularity of these products has increased because consumers who found themselves not adequately prepared for their retirement years soon became more vigilant about buying such insurance. In addition, immediate annuities offer a number of tax exemption benefits.

Our Q'Plex smart branch is scheduled to expand its "Portable Service" in 2013. This will include introducing a direct customer marketing service to support our multi-sales channels.

In 2012, KEB's fee income from sales of insurance products through its bancassurance channel rose by 97% YoY to KRW 37 billion. This was influenced by the Korean government's announcement in August of that year that tax exemptions for immediate annuities and early withdrawals would be abolished.

INVESTMENT PRODUCTS

The global market enjoyed a solid start in 2012, thanks to quantitative easing policies that had been put in place to help cope with the credit rating downgrade of the U.S and the sovereign debt crisis in Europe in 2011. However, investors' flight-to-quality intensified as the sovereign debt crisis continued unabated, even leading to talk about the possible collapse of the euro-zone. This led to a significant rise in the value of bonds – especially those that were denominated in US dollars and Japanese yen. In overall terms though, the most popular bonds were high-yield ones offered by emerging nations. This happened because the yields offered for bonds from advanced countries were perceived to be too low.

Concerns about the sovereign debt crisis in Europe resulted in the KOSPI falling below the 1,800 mark, despite a rebound to the 2,000 level earlier in the first quarter of the year. Although the index rose again later on, when the U.S and the E.U declared their commitment to quantitative easing, in the end it remained stuck in a range between 1,780 and 2,000, mostly because of the continuing negative influence of the U.S's "fiscal cliff" debacle. Despite this, extremist worries about the collapse of the euro-zone eased, thanks to the region's activist responses to the situation. Market sentiment improved when the U.S government reached an accommodation over the fiscal cliff at the very end of the year.

The immediate result of all these problems for the ordinary investor was a profound desire to cut his or her losses by redeeming their equity funds, whenever the index moved up during the year. This meant, of course, that less-risky ELS and overseas bond-type funds gained in popularity. As a result, the value of equity-type funds in 2012 decreased by KRW 450 billion, while that of overseas bond-type funds increased by KRW 100 billion.

KEB has also put full selling of investment products in place, obtaining the highest rating in the mystery shopping evaluations of fund-selling companies by the FSS and the Korea Investors Protection Foundation for the third consecutive year since 2010.

We offer investors a wide range of high-quality information in such areas as investment strategies and market data through our customer-oriented Wealth Management System. We also sell a broad range of investment products, including 292 onshore funds and 146 offshore ones, enabling our customers to develop portfolios that are always in sync with their investment preferences.

TRUST BUSINESS

Trust management is a fee-based business in which KEB is entrusted with its customers' monetary or real property, and manages it according to the terms of the trust document or the instructions of the customer. In its role as a trustee, KEB returns the trust property to the customer along with any gains or losses, without assuming the risk of losses. The sole exceptions to this are principal - protected trusts.

KEB plays a leading role in Korea in the management of money trusts, retirement pension trusts, and property trusts. With more than twenty years of experience under our belts, we have accumulated a great deal of expertise in caring for the assets and payout ratios of our many valued trust product customers. Going forward, KEB will continue in its role as Korea's trust and pension market leader by developing a number of new financial products, including equity, bond, and structured products that meet our customers' increasingly diverse needs.

RETIREMENT PENSION BUSINESS

The term retirement pension refers to corporate entities depositing the money that they have set aside for retirement allowances at a financial institution. When they retire, their workers are guaranteed either a long-term pension or a lump-sum payout. Retirement pensions are governed by the rules and regulations in Korea's Employment Retirement Benefit Security Act.

KEB plays a leading role in Korea in the management of money trusts, retirement pension trusts, and property trusts. With more than twenty years of experience under our belts, we have accumulated a great deal of expertise in caring for the assets and payout ratios of our many valued trust product customers.

There are a number of types of retirement pensions. They include Defined Benefit, which is the most common form of retirement plan; Defined Contribution, which allows subscribers to manage their funds by calculating the amount needed to sustain their retirement allowances every year; and Individual Retirement Pension, which enables subscribers to pay out a retirement allowance only at the time of a worker's retirement.

Retirement pensions are a fee-based business. Financial institutions enter into an agreement with a customer regarding its retirement pension and asset management operations, and receive a payment for doing so. The way that the assets are managed is directed by the customers, and all the investment income and/or losses that accrue belong to them.

Since the introduction of these plans in Korea in 2005, the retirement pension business has enjoyed rapid growth, with the retirement pension market growth in 2012 amounting to an amazing 36%. KEB's growth rate was an even more stellar 52%, outperforming all of its competitors.

Some of the major contributors to our success include our reputation for financial probity, the excellence of our products and human resources, and the wide range of services that we provide for our customers. The business is expected to become increasingly important as Korea continues turning into an aging society.

CARD BANKING

CREDIT CARDS

The focus of KEB's Card Department in 2012 was on expanding its customer base. Card sales increased by 9.4% YoY to KRW 17.7 trillion, and the number of new customers rose by 1.42 million, up an impressive 60.2% from the year before. This increase was driven by customer "word of mouth" and an extremely favorable response to the bank's 2X Card and its many services. The number of customers using their cards on a monthly basis exceeded the 1.5 million mark.

We also offer a highly competitive set of products aimed at each segment of our customers. This includes universally accessible products that enable us to increase our customer base, such as "2X cards" that accommodate the life stages of our customers. They attracted 700,000 new card holders in seven months. In addition, we are planning to retain the loyalty of key customer groups by continuously expanding our check card and 2X card lineups. We also intend to continue developing credit cards that are custom-tailored to suiting our customers' needs and wants.

The Card Department is also strengthening its customer base and enhancing their loyalty and brand awareness through a wide range of innovations and customer-first sales strategies. They include cultural programs and seasonal marketing events.

Customers

Our customer relationship management activities utilize a host of marketing models selected by customer attribute, such as CLTV, FM Segment, and Multi Needs. Customers are also classified into a number of segments, including "new," "retention," "breakaway," and "dormant."

Our efforts to expand our marketing base include encouraging customers to make us their main bank and operating a number of customer management programs, such as the "Care Trigger." We also carry out a number of CRM activities through a system that immediately recognizes and reflects changes in a customer's personal information. Going forward, we will strengthen our marketing efforts even more through such contact methods as telemarketing and such contact points as the Internet and mobile communications. Some of the new marketing activities that we will carry out include adding to and improving services for our VIP programs through such benefits as affiliated coupons, experiential marketing, cinema festivals, special gifts, music concerts, and monthly promotions.

Both our mass-market and our specially targeted promotions are based on financial models for each product and customer segment. This helps to increase revenue from our various interest-bearing financial products, such as cash advances, card loans, and revolving loans. We will also continue enhancing our efforts to prevent customer breakaways, including the establishment of financial consultancy and customer complaint systems. In addition, KEB offers a highly competitive set of products aimed at each segment of our customers. This includes universally accessible products that enable us to increase our customer base, such as “2X cards” that accommodate the life stages of our customers.

we will consider making adjustments to our interest rates on a per-product basis, and enhance our risk-based pricing of our interest rates to improve our sales profitability.

As part of our branding strategies for our mass promotion activities, we are expanding our “10,000 Won Surprise” credit card brand marketing event and carrying out strategic marketing activities by season and business type. In order to firm up our position in the aviation and tourism and entertainment markets, we will also operate models for T&E Multi needs. This will add to our brand competitiveness and the attractiveness of our products.

Merchants

We are stepping up our efforts to enhance our merchant-linked marketing activities and increase their level of credit card purchases. This is being done by classifying our more than 2.2 million merchants into two categories: domestic strategic merchants, and merchant relationship management.

We are also adding to our profitability by increasing the number of credit card purchases made in Korea using overseas credit cards, including China's UnionPay, Internet duty-free shops, and overseas online shopping malls. Other activities that we are using to increase our levels of credit card sales and earnings include servicing niche markets and seeking out such new revenue sources as dynamic currency conversion, multi-currency pricing, and tax refunds.

We also improved our earnings with regard to purchases at our merchants' establishments by increasing their levels of joint use and purchases through a business alliance with Hana SK Card. Another of our goals is to become an agent for payment approvals for Hana SK Card.

Synergies

KEB's Card Department participates in a broad array of collaborative activities to increase synergies within both the bank and Hana Financial Group. They include developing a wide range of products within the Group, improving our brand image, carrying out a variety of collaborative seasonal events, and adding to the attractiveness of our credit products. We are also planning to establish a synergy support team and strengthen our customer-based activities to maximize our productivity.

DEDICATED TO QUALITY SERVICE & RISK MANAGEMENT

QUALITY SERVICE PROVIDER

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

KEB won the 2012 Green Start Network Contest from the Ministry of Environment

E-BUSINESS

In 2012, Korea had over thirty million smartphone users, twenty million of whom were using smartphone banking. This dramatic growth has brought many changes to the country's financial industry, including the emergence of "smart" banking.

KEB responded to this challenge by launching a number of smartphone-based financial services that can be accessed by both Koreans and non-Koreans. For instance, we became the only player in the country's financial industry to offer a multilingual smartphone banking service. We call it KEB Global Banking. Currently available in twelve languages, it is helping us to attract the business of many non-Korean workers and students living in Korea, as well as members of multicultural families. Another first financial service that we introduced was a Smart Exchange Rate App, which provides customers with up-to-the-minute exchange rate information and coupons that entitle them to lowered charge for exchange. It is also multilingual.

In 2013, we plan to launch even more smartphone-based products. We will also build an open, Web-based Internet banking platform that will support a number of operating systems and Web browsers, strengthening our customers' access to our services on their mobile devices. In addition, we will increase our level of support for people who have difficulty using computers and/or accessing the Internet.

In this era of globalization, many businesses are trying to increase their global presence and strengthen their operational efficiencies. KEB continued to add to its corporate and electronic banking solutions in 2012 to help them achieve these goals. For example, we upgraded our In-House Banking service to In-House Banking Plus, enabling our corporate customers to embrace changes in their business and IT environments in a more flexible manner.

Some of the other corporate services that KEB offers include custom-tailored global banking, global fund management, and the integrated management of an enterprise's branch operations and affiliated companies, both inside and outside of Korea. As of the end of 2012, these solutions were being accessed by about 570 businesses.

We also became the first financial industry player in Korea to develop a real-time foreign currency fund management service. Some of the other services that we introduced include automatic utility charge payments, corporate card management, and International School Banking, a tuition receipt and management service for international schools. We are also planning to introduce a customized smartphone banking payment service.

Internet fraud is a very real threat these days. To counter this danger and better safeguard the financial assets of our customers, we introduced an exchange rate image for phishing prevention service and an e-banking fraud prevention service. Going forward, we will continue with our commitment to ensuring the safety of our customers' electronic financial transactions.

INFORMATION & TECHNOLOGY

IT INFRASTRUCTURE

In 2012, KEB's IT Department engaged in a wide range of activities to improve the bank's informatization processes and support other strategic projects. It also added to the quality of its services by consulting widely with the bank's other departments. Some of its most important contributions included reducing the bank's risk levels. This included protecting our customers' personal information and enhancing our IT security systems by strengthening our electronic data processing security systems.

In December, we finished setting up a next-generation CRM system that we had first begun in 2011. This was done to help the bank add to its sales capacity, increase its customer base, and enhance its key operating capabilities through improved marketing efficiencies. It was applied to all our branches.

In December, we opened a pilot smart branch called "Q'Plex," which we developed in collaboration with SK Telecom. It allows customers to take advantage of a variety of financial services, including deposits, funds, loans, credit cards, and foreign exchange remittances.

All of Korea's banks are being forced to adjust to a dramatic rise in the number of smartphone users. In KEB's case, we focused on creating more integrated smartphone apps. In addition, we revamped our network of channels by increasing the use of our smartphone banking service. We also expanded our mobile customer base by developing a wide range of apps that offer an advanced level of foreign exchange information.

Another of our projects was the development of an open banking system, which customers will be able to access starting in March 2013. This was done to meet the requirements of the FSS's Disability Discrimination Act regarding services for the differently challenged and seniors. It can also be used by people using alternate computer operating systems, such as Mac OS and Linux.

We also carried out IT infrastructure-related projects in conjunction with other affiliates of Hana Financial Group. This will generate a number of synergy effects, such as increasing our strategic IT infrastructure-related business alliances, improving our information exchanges, and reducing our IT infrastructure development costs.

The ultimate goals behind these improvements are to improve KEB's sales capacity, add to the efficiency of its operating department, and increase its customer satisfaction levels. Given the increasing popularity of such non-direct channels as Internet and smartphone banking, it follows that our competencies in terms of IT will have a direct bearing on our competitiveness.

Going forward, the IT Department will work to enhance the bank's domestic and international competitiveness by training new IT experts, researching new trends in the industry as a whole, and utilizing new technologies.

RISK MANAGEMENT

CAPITAL ADEQUACY FRAMEWORK

In 2008, the Korean Financial Supervisory Service, or FSS, gave us permission to apply the advanced Basel II approaches to our risk measurement programs. They include the foundation internal-ratings-based approach (F-IRB) for credit risk measurement, an internal model for market risk measurement, and the advanced measurement approach (AMA) for operational risk measurement. These programs have been included in our regulatory capital measurements since the end of 2008. We also use the RWA reduction targets for managing credit risk on both a bank-wide and a business unit basis.

These efforts helped us immeasurably in overcoming the many negative effects of the financial crisis that arose in 2008. They also assisted us in putting effective measures in place to accommodate the new capital regulations of the so-called Basel III that were introduced by the Basel Committee.

KEB has been using the advanced approaches of the Basel II Capital Accord to calculate its level of economic capital and establish a new capital adequacy framework since January 2007. The main requirements of the framework are that banks must now manage their material risks and separate their quantifiable risks from their non-quantifiable risks. Credit, market, operational, interest rate, and credit concentration risks are all quantifiable. Although liquidity risk is non-quantifiable, it is nevertheless classified as a material risk.

At the beginning of each year, KEB's Risk Management Committee, which is a subcommittee of the Board of Directors, establishes the bank's limits for quantifiable risks. In addition, the bank's Risk Steering Committee reviews its level of capital adequacy every month, and submits quarterly status reports to the Risk Management Committee.

The Basel II advanced approach uses the advanced internal ratings-based (A-IRB) approach to determine credit risk, the internal model to measure market risk, and the AMA to calculate operational risk. The confidence level for all of them is set at 99.9%. A capital buffer of around 10% of available capital has also been mandated, and a correlation matrix for integrating various risk volumes has also been introduced.

CREDIT RISK

KEB has been calculating its levels of credit risk according to the Basel II A-IRB approach since 2007. Measured credit risk volume is used in setting risk limits. These credit risk assessments cover our rating systems, our probability of default (PD), and our loss-given-default (LGD) estimates, as well as our retail credit scoring system, or CSS. We have also established a risk-based pricing system that uses risk data to reflect expected losses (EL) and unexpected losses (UL) in our loan pricing activities.

In addition, each KEB business unit uses the risk-adjusted performance measurement (RAPM). This was done by adopting risk-adjusted returns on capital (RAROC) as an index, starting in the first half of 2007. We began reflecting RAPM in setting our business unit targets and evaluating their performance in the first half of 2008. We started reflecting RAPM in setting targets for our branches and evaluating their performances in 2009.

In terms of regulatory capital (or the BIS ratio), KEB has been measuring credit risk using the FSS-approved F-IRB approach since September 2008. We set both bank-wide and business unit RWA targets, and have been examining them on a monthly basis since early in 2009. The RWA management program enabled us to maintain our asset quality and capital adequacy levels even during the banking crisis of 2008.

MARKET RISK

In 2008, the FSS gave us its approval to use the 750-day historical simulation method as our model. This was later changed to the 250-day historical simulation method, allowing us to measure Stressed VaR that reflected the effects of the global financial crisis that occurred from 2007 to 2009. KEB uses the model to calculate its regulatory capital, or BIS, ratio.

We manage market risk by monitoring our ten-day value-at-risk (VaR) limit. This includes Stressed VaR by business unit using the internal model and each-day stress-testing, which measures possible losses under various scenarios. Doing this allows us to guard against possible crises that are not reflected in recent market trends.

KEB also assesses the validity of its model on a daily basis. We do this by back-testing the P/L and 1-day VaR from the previous day. The risk volume that has been calculated by the model is then reflected in our risk limit. Since 2007, it has also been reflected in our RAROC target and business unit performance assessments.

OPERATIONAL RISK

KEB has been implementing operational risk limits based on AMA methodologies since 2007. This included putting 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 in 2008.

We calculate operational risk after AMA-based loss data have 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 each business unit's operational risk volume is reflected in its RAROC. The FSS approved KEB's AMA program in November 2008, and we began utilizing it to calculate our BIS capital ratio in March 2009.

We also established an Internal Control Council under the support of the Compliance Department to strengthen

KEB maintains a sufficient level of equity capital that allows us to carry out our day-to-day operations while also guarding against the many types of risk that accompany our activities and could conceivably lead to operating losses. In addition, we have put a wide range of capital adequacy evaluation systems and procedures in place.

our internal controls. Its members include the heads of the Operational Risk, Compliance, Audit & Examination, and Finance departments. We also use the FSS's Thirty 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 we can continue to operate under any circumstances. We also built an English-language operational risk system so that our overseas branches and local subsidiaries could access our Control Self-Assessment Program.

INTEREST RISK

KEB put its new asset-liability management (ALM) system in place in 2007. Since then, we have been calculating interest rate risk using an advanced deterministic scenario method in terms of both economic value and earnings. In the case of economic value, we measure VaR, which represents the maximum expected loss of the bank's net present value due to changes in interest rates. In the case of earnings, we measure earnings at risk (EaR), which represents the maximum expected loss of the bank's net interest income owing to changes in interest rates. In addition, KEB monitors its repricing and duration gaps to review its interest rate risk profile. We also conduct stress tests that assume the presence of large-scale market interest rate changes.

Implemented best practices in business continuity management

BS 25999

Certification

BUSINESS CONTINUITY PLAN

KEB's Business Continuity Plan, or BCP, has been in place since 2007. It allows the bank to carry on with its operations even in the event of natural disasters, terrorist activities, or computer problems.

We have also established a Crisis Management Committee to deal with any interruptions to our operations caused by accidents or disasters. It consists of KEB's CEO and the executives in charge of HR, finance, IT, and the BCP. In addition, we have set up an alternate operating location that we can use in the event that any of our other worksites become unusable. It is located in southern Gyeonggi Province, about thirty kilometers from our head office. We have also established a year-round, alternate Disaster Recovery Center more than thirty kilometers away from our IT Data Center. It can be used whenever problems arise within our IT network.

In order to guard against the suspension of operations at any of our branches, we also developed a system that enables them to respond to locally occurring problems like floods, fires, and power failures. This is done by designating two alternate locations: the nearest branch and another at least ten kilometers away.

We have also been carrying out simulation tests at least once a year since 2007 to enhance our employees' ability to cope with emergencies and ensure that we can resume our operations as quickly and smoothly as possible. The most recent test, which

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

was held in November 2012, simulated the unavailability of our head office building due to a fire.

We carried out a bank-wide project from September 2010 to January 2013 to raise our BCP level and reflect changes in our operating environment. In March 2011, we became the first Korean financial institution to obtain a British Standards Institute BS 25999 certification. It was awarded in recognition of our advanced global BCP level. We also passed the institute's surveillance audits for recertification in June 2012.

AN OPEN CORPORATE CULTURE AND A FOUNDATION FOR SHARING

KEB's corporate culture is based on adhering to all industry-related rules and regulations and insisting on the need for open and ethical management.

This includes our social contribution activities, which are managed under the support of the KEB Foundation. Our activities to carry out our corporate social responsibilities include volunteer services and financial donations by our employees, sharing with the rest of the world, and providing support for artistic and educational programs.

CORPORATE ETHICS

Financial institutions in today's challenging business environment face many legal and ethical responsibilities. This means that ethical management practices are no longer an option, but a necessity.

Since KEB's reputation depends on the integrity of its operations, it follows that our employees must commit themselves to the highest level of ethical behavior. To ensure that this happens, we operate a comprehensive internal oversight system that protects the bank's customers, employees, and shareholders. We also carry out a wide range of organization-wide activities to prevent financial malfeasance, including providing our employees with education and training in such areas as regulatory compliance and ethical behavior.

We also operate a Compliance Manager program at our domestic regional headquarters. Its mandate is to strengthen our internal oversight and regulatory compliance monitoring programs. This is backed up by an International Compliance Officer system that ensures corporate transparency, ethical management, and regulatory compliance at our overseas offices. In addition, we operate a "KEB Sinmungo" internal reporting system that controls for managerial risk in advance. Besides helping us to reduce the possibility of financial risk in the future, it deals with problems affecting all of our employees, including local staff in our overseas offices.

In 2012, we published a revised edition of our Ethics and Compliance Guidebook. It is meant to help everyone at KEB comply with all the laws, rules, regulations, standards, and operational guidelines contained in our Code of Ethics. In addition, we received a sixth straight "excellent" rating in an assessment of our implementation of anti-money laundering standards by the Korea Financial Intelligence Unit (KoFIU). This was followed by a Prime Minister's Prize in recognition of our efforts to combat money laundering.

CUSTOMER SATISFACTION

KEB's customer satisfaction management activities are based on the belief that its customers deserve the ultimate in service at any of its branches. Our customer service goal is to be "Your best financial partner, offering the best services possible." To ensure that this goal is always being met, our CS organization was reorganized into the Service Delivery Department, increased its number of personnel from three to eleven, and assigned a team leader to take exclusive charge of its operations. All of these changes took place in 2012.

We carry out a monthly mystery shopping program to measure our level of customer service, and make more than 70,000 phone calls a year to find out what our customers are thinking. The results of these activities are then reported to our branches on a real-time basis. In addition, we provided CS training to over 150 of our branches, about half of the total. We did the same thing at all our branches in Canada.

In addition, we operate a wide array of customer satisfaction management training programs throughout the year. They include an overnight camp for the CS leaders at each of our branches, as well as training for new hires, employees at our head office, and our corporate banking leaders.

THE KEB FOUNDATION

KEB was the first bank in Korea to establish a non-profit charity organization. Called the KEB Foundation, it was inaugurated in December 2005 with the goal of allowing us to engage in social contribution activities in a more systematic and professional manner.

Over the past eight years, the Foundation has spent approximately KRW 22.1 billion carrying out a broad range of social contribution activities. They include supporting less-fortunate children, childcare facilities, low-income families, and the underprivileged. Some of its other projects include community services, providing scholarships to students from low-income families, and international relief activities.

The Foundation is particularly focused on helping children pursue their dreams and contributing to the building of a social safety network. It also engages in activities that reflect KEB's position as Korea's leading global bank. They include supporting multicultural families, migrant workers, and North Korean defectors and international relief activities.

As a result of all this, the Foundation received two commendations from the Minister of Health and Welfare in 2012. It also received the 2012 Social Contributions Grand Prize for Sharing Happiness from the *Dong-A Ilbo* newspaper and the Association of Korean Journalists, and the grand prize at the SBS Sharing Hope for Tomorrow Competition.

CHILD SUPPORT PROGRAMS

The Foundation supports a large number of programs targeting underprivileged children. It also sponsors outings for physically handicapped children in collaboration with Holt Children's Services. Some of the events that the Foundation carried out in 2012 included a story contest, an English-language camp for children from low-income families and a Vision Camp for children living in childcare centers.

Another of the Foundation's key projects is its one-to-one sponsorship program for needy children in and outside Korea. At the present time, 741 children are receiving about KRW 243 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

The Foundation has been helping multicultural families since 2009, including offering them financial assistance. In 2012, KRW 68 million was given to seventeen housewives from such families and the individuals and groups that were helping them. They were also provided with an opportunity to visit their homelands or to bring their parents to visit them in Korea.

Other activities for multicultural families that the Foundation undertook in 2012 included a badminton tournament, a guidebook on school life for parents of preschool-aged children, assisting with the training of employees of multicultural assistance centers, children's language classes in conjunction with the Korea Institute for Healthy Families, and a multilingual cultural textbook development project in association with the Hankuk University of Foreign Studies.

We also host an annual essay writing contest in conjunction with the Sookmyung Women's University Research Institute

Carrying out social contribution activities by caring and sharing

of Asian Women that encourages non-Korean women to write about their experiences in Korea in their mother language. Thirty-three women won prizes in 2012. In addition, twenty housewives from the Philippines and their children visited their homeland through the Motherland Tour program, organized in cooperation with the Pearl S. Buck Foundation Korea.

Finally, we provide KRW 100 million every year towards the operation of the Migrant Workers' Hospital, a no-charge medical institution that cares for foreign workers.

COMMUNITY SERVICES

KEB's employees practice caring and sharing by carrying out a wide range of volunteer service activities through their volunteer group, the KEB Love Sharers. The group also sponsors an annual blood donation drive and participates in overseas activities. In 2012, twenty-one of the bank's employees and customers visited Mongolia to help building a house for low-income families in conjunction with Korea Habitat for Humanity.

SCHOLARSHIPS

The KEB Scholarship program, which was launched in 1989, is now run by the Foundation. From 2006 until 2012, it provided KRW 1,508 million in scholarships to low-income middle, high school, and university students. In addition, KEB's Overseas Scholarship Program has provided about KRW 557 million to college students from low-income families in Vietnam, Indonesia, and the Philippines over the past seven years. In 2009, we launched the KEB Global Scholarship program to assist students from developing countries who are attending Korean universities and graduate schools. So far, KRW 159 million has been disbursed. We are proud to be the first Korean bank to offer scholarships to both Korean and non-Korean students.

THE KEB FOUNDATION

INTERNATIONAL ASSISTANCE PROGRAMS

KEB's international assistance projects reflect its image as Korea's leading global bank. We have helped to repair damage from natural disasters in a host of countries, including Pakistan, Haiti, Chile, Indonesia, Vietnam, Myanmar, Taiwan, and the Philippines. We also helped with recovery efforts from earthquakes and the massive tsunami in eastern Japan.

The Foundation also operates a number of "Happy Home School" centers for children from low-income families. The first one was opened in Indonesia in 2006, followed by others in Vietnam, the Philippines, Uganda, and Colombia. The latest one was opened in Cambodia in 2012. The program includes scholarships, wells and water purification facilities, and schoolbags and clothing. In 2012, we contributed towards a special USD 100,000 fund for the Global Strategy for Women's and Children's Health project to help reach the U.N.'s Millennium Development Goals.

We also operate a treatment program for facial disfigurement in conjunction with Global Care. We treated thirty facially disfigured children in Vietnam in 2012.

OTHER SOCIAL ASSISTANCE PROJECTS

KEB provides economically disadvantaged children with a number of artistic and educational programs, including invitations to concerts and plays. Although KEB provides KRW 3 billion in funding for these activities, we also rely on help from our employees. This includes donating to the Foundation and participating in a sponsorship program targeting needy children both inside and outside Korea. As of the end of 2012, 3,255 KEB employees were taking part in fund-raising activities every month, donating KRW 827 million annually.

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.

MANAGEMENT DISCUSSION & ANALYSIS

1. KEY FINANCIAL DATA

(In billions of KRW)

	2011	2012	Change (%)
Operating Income			
Total Income	3,631.4	2,476.1	-31.81%
Net Interest Income	2,549.9	2,466.0	-3.29%
Net Non-Interest Income	1,081.5	10.1	-99.07%
Total Expenses (G&A)	1,490.6	1,573.0	5.53%
Operating Income	2,140.8	903.1	-57.81%
Net Income	1,654.7	658.9	-60.18%
Profitability Indices			
Net Interest Margin (NIM)	2.62%	2.36%	-9.92%
Return on Assets	1.45%	0.61%	-57.93%
Return on Equity	17.78%	7.46%	-58.04%
Balance Sheet Data at Year-End (inclg. Trust Account)			
Total Assets	100,497.0	104,001.2	3.49%
Total Credits	67,944.3	70,354.0	3.55%
Total Deposits	64,429.6	66,781.6	3.65%
Asset Quality			
NPL Ratio	1.18%	1.19%	0.85%
NPL Coverage Ratio	145.1%	140.9%	-2.89%
Precautionary & Below Ratio	2.67%	2.89%	8.24%
Pre & Bel. Coverage Ratio	64.4%	58.0%	-9.94%
Delinquency Ratio	0.59%	0.62%	5.08%
Capital Adequacy			
BIS Ratio	14.48%	13.59%	-6.15%
Tier I Ratio	11.95%	11.06%	-7.45%
Tier II Ratio	2.53%	2.53%	0.00%

2. OVERVIEW

The world economy continued to experience difficulties in 2012, mostly due to the prolonged sovereign debt crisis in Europe and an ongoing economic slowdown in the United States. Because the global economy is so interconnected, these problems had a domino effect on emerging countries, including China. This led to a slowdown in the entire global economy.

Despite these challenges, everyone at KEB worked their hardest to make KEB bigger and better. Because of their loyalty and dedication, we made significant progress in strengthening our revenue base for future growth, even though some of our results came in below our expectations.

MANAGEMENT DISCUSSION & ANALYSIS

3. INCOME STATEMENT

1) Summary of Profitability

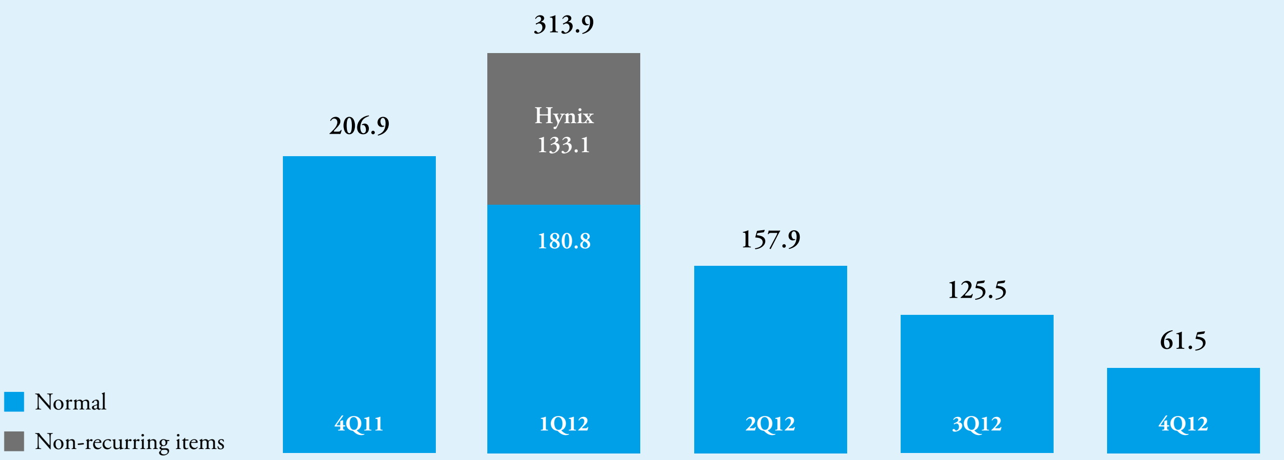
(In billions of KRW)

	2011	2012	Change (%)
Total Income	3,631.4	2,476.1	-31.81%
Net Interest Income	2,549.9	2,466.0	-3.29%
Net Commission Income	247.5	178.6	-27.84%
Non Interest Income	834.0	(168.5)	-120.20%
SG&A Expense	1,490.6	1,573.0	5.53%
Operating Income	2,140.8	903.1	-57.81%
Non-Operating Income	18.3	16.9	-7.62%
Income before Tax	2,159.1	920.0	-57.39%
Income Tax	504.4	261.1	-48.24%
Net Income	1,654.7	658.9	-60.18%
Earnings per Share (KRW)	2,538.0	993.0	-60.87%
Dividends per Share (KRW)	1,510.0	50.0	-96.69%

KEB posted a net income of KRW 658.9 billion in 2012. Although this was a significant decline from our 2011 figure, it needs to be taken in the context of an extraordinary gain of over KRW 1 trillion (before income taxes) from the sale of our shares in Hyundai Engineering & Construction that year. This also caused the value of the securities that we sold in 2012 to fall by more than KRW 900 billion. Our ROA and ROE were 0.6% and 7.4%, respectively.

Quarterly Trend of Net Income

(In billions of KRW)



MANAGEMENT DISCUSSION & ANALYSIS

2) Net Interest Income & Net Interest Margin (NIM)

Our net interest income fell to KRW 2,466.0 billion in 2012, mainly because of rate cuts by the Bank of Korea. The net interest margin for the year was 2.36%.

(In billions of KRW)

	2011	2012	Change (%)
Net Interest Income	2,549.9	2,466.0	-3.29%
Interest-Earning Assets (avg.)	79,192.7	83,211.3	5.07%
Net Interest Margin (NIM)*	2.62%	2.36%	-9.92%
KRW	3.17%	2.89%	-8.83%
Foreign currency	0.93%	0.77%	-17.20%

* Net interest margin is calculated from net interest income adjusted for certain items.

3) Fees & Commissions

Net commission income declined to KRW 178.6 billion in 2012. This was primarily due to the Financial Service Commission's overhaul of the nation's credit card merchant fee system in July. One major result of the Commission's reduction in credit card commission rates was that income from credit card fees fell.

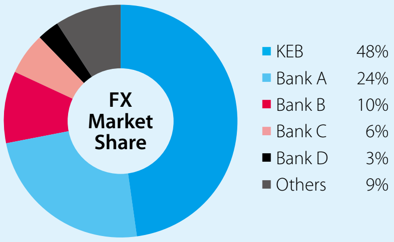
(In billions of KRW)

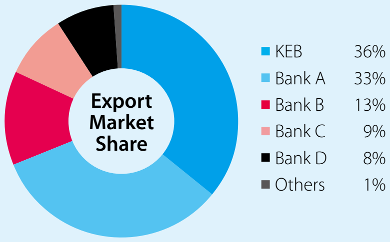
	2011	2012	Change (%)
Net Commission Income	247.5	178.6	-27.84%
Receving Credits	14.3	12.7	-11.37%
Giving Credits	20.9	30.4	45.60%
Foreing Exchange	171.0	160.7	-6.02%
Credit Card	(125.8)	(184.8)	46.96%
Asset Management	11.1	8.3	-24.56%
Agency Business	24.2	42.4	75.18%
Gurantee Service	71.9	67.3	-6.47%
Others	59.8	41.6	-30.50%

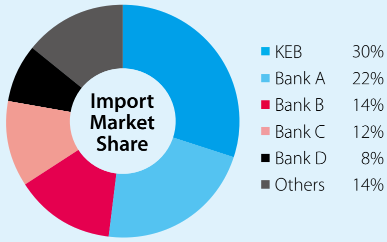
MANAGEMENT DISCUSSION & ANALYSIS

KEB retained its market-leading position in the areas of foreign exchange and trade finance in 2012. Its share of the market for foreign exchange was 48%. The figure for exports was 36%, while that for imports was 30%.

Market Leadership in F/X and Trade Finance (2012)







4) Total Expenses

Our total expenses in 2012 were KRW 1,573.0 billion, with a cost-to-income ratio of 52.0%.

(In billions of KRW)

	2011	2012	Change (%)
Total Expenses	1,490.6	1,573.0	5.53%
Salaries	614.3	676.4	10.11%
Retirement Allowance	46.7	91.9	96.97%
Administrative Expenses	684.8	654.7	-4.39%
Depreciation	99.8	105.7	5.89%
Taxes	45.0	44.2	-1.65%
Cost-to-income Ratio	48.4%	52.0%	7.44%

5) Provisions & Others

Our loan loss provisions increased to KRW 660.5 billion in 2012. Most of this was due to growth in total credit and the need to bring our standards up to those of the entire Hana Financial Group.

(In billions of KRW)

	2011	2012	Change (%)
Total Provisions & Others	523.0	685.0	31.0%
Loan loss provisioning	556.2	660.5	18.8%
Unused Commitment Provisioning	-43.7	6.2	114.2%
Other Provisioning	10.5	18.3	74.3%

4. ASSET QUALITY AND BALANCE SHEET (BANK ACCOUNT)

1) Asset Quality

The NPL ratio increased marginally, going to 1.19% from 1.18% a year earlier. The NPL coverage ratio (i.e., loan loss reserve to NPL ratio) remained stable at 140.9%.

(End of period, in billions of KRW)

	2011	2012	Change (%)
Total Credits	73,108.2	76,270.5	4.33%
Normal	71,155.8	74,063.9	4.09%
Precautionary	1,086.3	1,298.8	19.56%
Substandard	398.6	558.8	40.19%
Doubtful	405.3	241.3	-40.46%
Estimated Loss	62.2	107.7	73.21%
NPL	866.0	907.8	4.83%
NPL Ratio	1.18%	1.19%	0.87%
Reserves for Loan Loss	1,256.9	1,279.2	1.77%
NPL Coverage Ratio	145.1%	140.9%	-2.91%

2) Assets

The total value of our assets at the end of 2012 was KRW 104.0 trillion, while loans increased to KRW 70.4 trillion. This was mostly driven by increased lending to households and large businesses.

(End of period, in billions of KRW)

	2011	2012	Change (%)
Cash & Due from Banks	8,397.5	8,093.8	-3.62%
Securities	13,099.6	13,668.8	4.35%
Loans	67,944.3	70,354.0	3.55%
Credit Card Receivables	2,495.7	2,576.7	3.25%
Other Assets	8,703.1	9,396.3	7.97%
Merchant Banking Assets	2,352.5	2,488.2	5.77%
Total Assets	100,497.0	104,001.2	3.49%

MANAGEMENT DISCUSSION & ANALYSIS

3) Liabilities & Shareholders' Equity

Total deposits increased to KRW 66.8 trillion at the end of 2012. Borrowings and debentures were down by KRW 6.9 trillion and up by KRW 6.2 trillion, respectively. The total value of our liabilities and shareholders' equity was KRW 104.0 trillion.

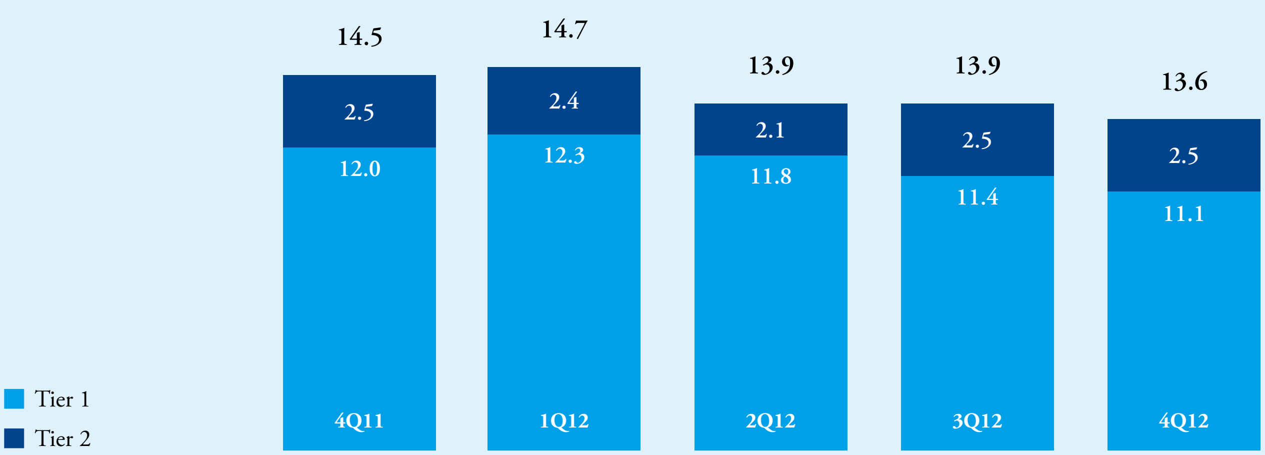
(End of period, in billions of KRW)

	2011	2012	Change (%)
Deposits	64,429.6	66,781.6	3.65%
Borrowings	9,330.2	6,925.7	-25.77%
Debentures	5,460.0	6,173.4	13.07%
Other Liabilities	10,233.5	12,883.9	25.90%
Merchant Banking Liabilities	753.2	528.7	-29.81%
Shareholders' Equity	8,636.5	9,081.9	5.16%
Liabilities & Shareholders' Equity	100,497.0	104,001.2	3.49%

5. CAPITAL ADEQUACY

KEB maintained its strong capital position, boasting a BIS capital ratio of 13.6% at the end of 2012. Its Tier 1 capital ratio was 11.1%, while the Tier 2 one was 2.53%.

BIS Capital Ratio (%)



INDEPENDENT AUDITOR'S REPORT

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of
Korea Exchange Bank

We have audited the accompanying consolidated financial statements of Korea Exchange Bank (the "Company") and its subsidiaries (collectively, the "Consolidated Group"). The financial statements consist of the consolidated statements of financial position as of December 31, 2012 and December 31, 2011, respectively, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows, all expressed in Korean won, for the years ended December 31, 2012 and 2011, respectively. The Consolidated Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Consolidated Group as of December 31, 2012 and December 31, 2011, respectively, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

Deloitte Anjin LLC

March 8, 2013

Notice to Readers

This report is effective as of March 8, 2013, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditor's report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011

(In millions of KRW)

		Dec. 31, 2012		Dec. 31, 2011
ASSETS				
Cash and due from banks (Notes 6, 7,10 and 47)	₩	8,093,842	₩	8,397,528
Financial assets at fair value through profit or loss (Notes 5, 6, 7, 11, 18 and 48)		1,478,079		1,483,993
Hedging derivative assets (Notes 5, 6, 7 and 18)		37,867		32,537
Available-for-sale financial assets (Notes 5, 6, 7, 12, 14, 15 and 17)		7,026,521		6,120,693
Held-to-maturity investments (Notes 4, 6, 7, 13, 14 and 15)		5,126,353		5,462,329
Loans (Notes 6, 7, 16, and 17)		70,353,991		67,944,287
Investments in associates (Note 19)		-		669
Tangible assets (Note 20)		1,222,961		1,207,380
Investment property (Note 21)		178,312		176,442
Intangible assets (Note 22)		83,036		86,576
Prepaid income taxes		4,266		5,098
Deferred income tax assets (Note 44)		27,811		28,589
Other assets (Notes 6, 7, 23 and 48)		7,878,522		7,198,362
Merchant banking account assets (Notes 6, 7 and 23)		2,488,216		2,352,503
Non-current assets held for sale (Note 24)		1,439		-
Total assets	₩	104,001,216	₩	100,496,986
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 6, 7, 8, 26 and 48)	₩	66,781,589	₩	64,429,609
Financial liabilities at fair value through profit or loss (Notes 5, 6, 7, 8, 18, 25 and 48)		1,308,753		968,120
Hedging derivative liabilities (Notes 5, 6, 7, 8 and 18)		-		897
Borrowings (Notes 6, 7, 8 and 27)		6,925,705		9,330,215
Debentures (Notes 6, 7, 8 and 28)		6,173,426		5,460,024
Provisions (Notes 29 and 49)		241,482		241,055
Income taxes payable		40,107		387,378
Deferred income tax liabilities (Note 44)		35,679		56,459
Other liabilities (Notes 4, 6, 7, 8, 30, 31, 46 and 48)		12,883,855		10,233,450
Merchant banking account liabilities (Notes 6, 7, 8 and 30)		528,725		753,244
Total liabilities		94,919,321		91,860,451
SHAREHOLDERS' EQUITY:				
Equity attributable to the owners:				
Capital stock (Note 32)		3,224,534		3,224,534
Capital surplus (Note 32)		940		940
Hybrid securities (Note 32)		249,772		249,772
Stock options		40		-
Retained earnings (Note 33) (Reserve for credit losses reserved previously: ₩680,621 million as of December 31, 2012 ₩0 million as of December 31, 2011 Additional expected reserve for credit losses: ₩56,701 million as of December 31, 2012 ₩680,621 million as of December 31, 2011) (Note 34)		5,444,292		4,803,671
Accumulated other comprehensive income (Note 35)		160,230		355,284
		9,079,808		8,634,201
Non-controlling interests		2,087		2,334
Total shareholders' equity		9,081,895		8,636,535
Total liabilities and shareholders' equity	₩	104,001,216	₩	100,496,986

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW, except per share amounts)

	2012	2011
Net interest income (Notes 37 and 48):		
Interest revenues	₩ 4,391,120	₩ 4,376,883
Interest expenses	(1,925,143)	(1,826,994)
	2,465,977	2,549,889
Net commission income (Notes 38 and 48):		
Commission revenues	521,295	513,470
Commission expenses	(342,665)	(265,972)
	178,630	247,498
Net income (loss) of financial instruments at fair value through profit or loss (Notes 39 and 48):		
Gains on financial instruments at fair value through profit or loss	3,570,584	3,819,875
Losses on financial instruments at fair value through profit or loss	(3,579,565)	(3,762,444)
	(8,981)	57,431
Net income (loss) of hedging derivatives (Note 39):		
Gains on hedging derivatives	7,881	28,423
Losses on hedging derivatives	(12,787)	(27,601)
	(4,906)	822
Net income of available-for-sale financial assets (Note 39):		
Gains on available-for-sale financial assets	247,046	1,191,264
Losses on available-for-sale financial assets	(40)	(927)
	247,006	1,190,337
Net impairment losses (Note 40, 48):		
Impairment losses on financial assets	(683,859)	(571,836)
General and administrative expenses (Notes 41, 46 and 48)	(1,572,964)	(1,490,559)
Other operating income (Notes 42 and 48):		
Other operating revenues	1,391,392	1,486,413
Other operating expenses	(1,109,186)	(1,329,150)
	282,206	157,263
Operating income	903,109	2,140,845
Non-operating income (Note 43):		
Non-operating revenues	66,529	68,440
Non-operating expenses	(49,667)	(50,187)
	16,862	18,253
Income before income tax expense	919,971	2,159,098
Income tax expense (Note 44)	(261,119)	(504,433)
Net income:		
Owners (Net income after reserve for credit losses: ₩602,170 million for year ended December 31, 2012 ₩1,489,936 million for year ended December 31, 2011)(Note 34)	658,871	1,654,745
Non-controlling interests	(19)	(80)
	₩ 658,852	₩ 1,654,665

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW, except per share amounts)

		2012		2011
Other comprehensive income (loss) (Note 35):				
Gain or loss on change in fair value of available-for-sale financial assets	₩	(113,906)	₩	(598,813)
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets		(89)		(25)
Share of other comprehensive loss of associates		10		-
Gain or loss on overseas business translation		(108,862)		27,534
Tax on other comprehensive income		27,565		123,044
	₩	(195,282)	₩	(448,260)
Total comprehensive income:				
Owners	₩	463,817		1,206,448
Non-controlling interests		(247)		(43)
	₩	463,570	₩	1,206,405
Earnings per share (In Korean won) (Note 45):				
Basic earnings per share	₩	993	₩	2,538
Diluted earnings per share	₩	993	₩	2,533

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW)

	Capital stock	Capital surplus	Hybrid securities	Stock options	Retained earnings	Accumulated other comprehensive income	Non-controlling interests	Total
January 1, 2011	₩3,224,534	₩ 940	₩ 249,772	₩ -	₩4,689,156	₩ 803,581	₩ 2,377	₩8,970,360
Dividends	-	-	-	-	(548,171)	-	-	(548,171)
Balance after appropriations	-	-	-	-	4,140,985	-	-	8,422,189
Net income	-	-	-	-	1,654,745	-	(80)	1,654,665
Quarterly dividend	-	-	-	-	(973,809)	-	-	(973,809)
Gain or loss on change in fair value of available-for-sale financial assets, after tax effect	-	-	-	-	-	(475,417)	30	(475,387)
Gain or loss on overseas business translation	-	-	-	-	-	27,139	7	27,146
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect	-	-	-	-	-	(19)	-	(19)
Dividends on hybrid securities	-	-	-	-	(18,250)	-	-	(18,250)
December 31, 2011	₩3,224,534	₩ 940	₩ 249,772	₩ -	₩4,803,671	₩ 355,284	₩ 2,334	₩8,636,535
January 1, 2012	₩3,224,534	₩ 940	₩ 249,772	₩ -	₩4,803,671	₩ 355,284	₩ 2,334	₩8,636,535
Net income	-	-	-	-	658,871	-	(19)	658,852
Gain or loss on change in fair value of available-for-sale financial assets, after tax effect	-	-	-	-	-	(86,350)	(12)	(86,362)
Gain or loss on overseas business translation	-	-	-	-	-	(108,646)	(216)	(108,862)
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect	-	-	-	-	-	(68)	-	(68)
Change of share of other comprehensive loss of associates	-	-	-	-	-	10	-	10
Dividends on hybrid securities	-	-	-	-	(18,250)	-	-	(18,250)
Stock options	-	-	-	40	-	-	-	40
December 31, 2012	₩3,224,534	₩ 940	₩ 249,772	₩ 40	₩5,444,292	₩ 160,230	₩ 2,087	₩9,081,895

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW)

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	658,852	₩	1,654,665
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:				
Income tax expense		261,119		504,433
Interest income, net		(2,465,977)		(2,549,889)
Dividend income		(12,234)		(55,317)
Rental revenues		(3,206)		(3,522)
Gain on valuation of trading securities, net		(380)		(419)
Gain on valuation of trading bonds, net		(2)		(234)
Gain on valuation of trading derivatives, net		(33,488)		(68,162)
Loss (gain) on valuation of hedging derivatives, net		5,517		(110)
Gain on disposal of available-for-sale equity securities, net		(196,820)		(1,181,468)
Gain on disposal of available-for-sale debt securities, net		(50,186)		(8,869)
Impairment loss on available-for-sale financial assets, net		16,136		10,333
Transfer to allowance for possible losses		667,723		561,503
Salaries		-		20,400
Expenses for fringe benefits		-		2,100
Depreciation and amortization		105,713		99,830
Loss (gain) on disposal of tangible assets, net		261		(215)
Loss on disposal of investment property		73		-
Share of loss of associates, net		679		129
Gain on disposal of investment in associates		-		(142)
Impairment losses on intangible assets		2,984		1,806
Retirement allowances		91,925		46,669
Long-term compensation expense for performance bonus		33,842		22,086
Reversal of stock-option compensation costs, net		(2,453)		(4,533)
Reversal of provision for acceptances and guarantees		(2,540)		(9,787)
Transfer to (reversal of) provision for unused credit limit		6,291		(43,404)
Transfer to other provisions		18,385		10,480
Gain on foreign exchange trading, net		(34,433)		(50,030)
Others, net		(4,610)		4,104
		(1,595,681)		(2,692,228)
Changes in operating assets and liabilities:				
Net decrease in trading securities		337		49,045
Net decrease (increase) in trading bonds		288,641		(345,942)
Net (increase) decrease in trading derivatives assets		(249,301)		82,857
Net decrease in hedging derivatives assets		711		140
Net (increase) in loans		(3,474,909)		(2,139,553)
Net decrease (increase) in other assets		1,015,967		(299,532)
Net increase in merchant banking account assets		(131,135)		(916,121)
Net increase in deposits		2,668,196		1,457,100
Net increase (decrease) in trading derivative liabilities		340,668		(3,952)
Net (decrease) in hedging derivative liabilities		(897)		(1,614)
Payment of severance benefits		(33,674)		(71,855)
(Increase) in plan assets		(75,136)		(14,185)
Net (decrease) in other provisions		(20,434)		(16,642)
Net increase in other liabilities		1,643,468		737,432
Net (decrease) in merchant banking account liabilities		(224,487)		(198,046)
		1,748,015		(1,680,868)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW)

	2012		2011	
Cash generated from operating activities:				
Net cash received for interest income	₩	1,751,029	₩	2,708,869
Net cash received for dividend income		12,235		55,320
Payment of income tax		(599,996)		(356,517)
		1,163,268		2,407,672
Net cash flows provided by (used in) operating activities		1,974,454		(310,759)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash flows provided by investing activities				
Net decrease in restricted due from banks		1,040,736		782,592
Net decrease in available-for-sale financial assets		-		539,185
Net decrease in held-to-maturity financial assets		326,355		541,764
Disposal of tangible assets		135		1,380
Disposal of investment property		271		-
Disposal of intangible assets		213		-
Cash inflow related to lease		1,995		-
		1,369,705		1,864,921
Cash flows used in investing activities				
Net increase in available-for-sale financial assets		(800,454)		-
Purchase of tangible assets		(97,749)		(75,584)
Purchase of intangible assets		(16,549)		(26,493)
Cash outflow related to lease		-		(2,219)
Net increase in guarantee deposits paid		(8,388)		(20,087)
		(923,140)		(124,383)
Net cash flows provided by investing activities		446,565		1,740,538
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net cash flows provided by financing activities				
Net increase in bills sold		-		13,238
Net increase in bills sold		-		44,281
Net increase in borrowings		-		802,668
Increase in debentures		3,423,882		1,893,143
		3,423,882		2,753,330
Net cash flows used in financing activities				
Net decrease in call money		(902,844)		-
Net decrease in bills sold		(33,606)		-
Net decrease in bonds sold under repurchase agreements		(22,055)		(98,800)
Net decrease in borrowings		(1,291,248)		-
Decrease in debentures		(2,745,605)		(1,418,114)
Dividends paid		-		(1,521,980)
Dividends on hybrid securities		(18,250)		(18,250)
		(5,013,608)		(3,057,144)
Net cash flows (used in) financing activities		(1,589,726)		(303,814)
NET INCREASE IN CASH AND CASH EQUIVALENTS		831,293		1,125,965
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD		3,587,854		2,389,319
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(94,243)		72,570
CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (Note 47)	₩	4,324,904	₩	3,587,854

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011 AND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. GENERAL:

(1) General Description of Parent

Korea Exchange Bank (the "Company") was established on January 30, 1967, as a government-invested bank to engage in foreign exchange and trade finance business under Korea Exchange Bank Act. On December 30, 1989, Korea Exchange Bank Act was repealed and the Company was converted into a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Company was listed on Korean Stock Exchange. The merger between the Company and Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

The Company primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Company, and other related operations as permitted under Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As of December 31, 2012, the Company operates through 357 branches (including 26 depositary offices) and three subsidiaries in the Republic of Korea and 20 branches (including two depositary offices and five offices) and 10 overseas subsidiaries.

As of December 31, 2012, the Company's shareholders and the respective percentage of ownership are as follows:

Name of shareholders	Number of shares owned (*1)	Percentage of ownership (%)
Hana Financial Group Inc.	386,952,719	60.00
The Bank of Korea ("B.O.K.")	39,500,000	6.12
Ilsung Pharmaceuticals Co., Ltd.	12,022,380	1.86
The Government of Singapore	8,249,660	1.28
National Pension Service	8,040,677	1.25
Others	190,141,390	29.49
Total	644,906,826	100.00

(*1) The list of the Company's shareholders is dated as of December 31, 2012, which is the closing date of the list.

As of December 31, 2012, the total number of authorized shares of the Company are 1,000 million at par value of ₩5,000, while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding, with a par value of ₩5,000).

Meanwhile, due to the acquisition of equity of the Company by Hana Financial Group Inc. and four other co-investors, the largest shareholder has been changed from LSF-KEB Holding, SCA to Hana Financial Group Inc. as of February 9, 2012.

(2) Description of subsidiaries in the consoldiation

1) Subsidiaries included in the consolidation as of December 31, 2012 and 2011, are as follows (Unit: thousands):

Subsidiaries	Business	Location	Dec. 31, 2012		Dec. 31, 2011	
			No. of shares	Percentage of owner-ship(%)	No. of shares	Percentage of owner-ship (%)
KEB Capital Inc. (“KEBC”)	Finance and banking service	Korea	14,976	99.31	14,976	99.31
KEB Futures Co., Ltd. (“KEBF”)	Finance and banking service	Korea	3,000	100.00	3,000	100.00
KEB Fund Services Co., Ltd. (“KEBIS”)	Finance and banking service	Korea	510	100.00	510	100.00
Korea Exchange Bank of Canada (“KEBOC”)	Finance and banking service	Canada	334	100.00	334	100.00
KEB Australia Ltd. (“KEBA”)	Finance and banking service	Australia	55,000	100.00	55,000	100.00
Korea Exchange Bank (Deutschland) A.G. (“KEBDAG”)	Finance and banking service	Germany	20	100.00	20	100.00
PT. Bank KEB Indonesia (“KEBI”)	Finance and banking service	Indonesia	1	99.00	1	99.00
Banco KEB do Brasil S. A. (“KEBB”)	Finance and banking service	Brazil	36,000	100.00	33,726	100.00
KEB NY Financial Corp. (“NYFinCo”)	Finance and banking service	USA	0.1	100.00	0.1	100.00
KEB LA Financial Corp. (“LAFinCo”)	Finance and banking service	USA	0.2	100.00	0.2	100.00
KEB USA Int’l Corp. (“USAI”)	Finance and banking service	USA	0.1	100.00	0.1	100.00
KEB Asia Finance Limited (“KAF”)	Finance and banking service	Hong Kong	50,000	100.00	50,000	100.00
KEB Bank (China) Co., Ltd. (“KEB China”)	Finance and banking service	China	-	100.00	-	100.00
Trust agreement to preserve income (*1)	Trust service	Korea	-	0.00	-	0.00

(*1) Classified as a special purposed entity (“SPE”) included in the consolidation based on consideration of activities of the SPE being conducted on behalf of the Consolidated Group, the Consolidated Group’s decision making power to obtain the majority of the benefits of the activities and the Groups’ right to obtain the majority of the benefit from the activities and exposure to risk incident to the activities.

2) Financial status of subsidiaries included in the consolidation as of December 31, 2012 and 2011, is as follows (Unit: In millions):

Subsidiaries	Dec. 31, 2012			
	Assets	Liabilities	Shareholders’ equity	Net income
KEBC	₩ 704,580	₩ 628,743	₩ 75,837	₩ (23,409)
KEBF	696,372	629,764	66,608	2,501
KEBIS	13,869	1,718	12,151	1,291
KEBOC	1,179,779	1,033,271	146,508	12,815
KEBA	506,005	421,826	84,179	9,402
KEBDAG	440,243	366,865	73,378	3,034
KEBI	539,919	383,427	156,492	14,101
KEBB	247,044	203,268	43,776	3,440
NYFinCo	430,860	394,482	36,378	860
LAFinCo	288,822	246,876	41,946	3,432
USAI	7,106	12	7,094	150
KAF	85,346	31,408	53,938	1,076
KEB China	1,854,218	1,444,379	409,839	4,693
Trust agreement to preserve income	86	83	3	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011 AND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Subsidiaries	Dec. 31, 2011			
	Assets	Liabilities	Shareholders' equity	Net income
KEBC	₩ 788,809	₩ 688,167	₩ 100,642	₩ (35,132)
KEBF	123,662	60,262	63,400	4,332
KEBIS	10,968	108	10,860	423
KEBOC	1,227,203	1,086,228	140,975	10,518
KEBA	403,043	323,907	79,136	6,929
KEBDAG	513,288	438,491	74,797	9,394
KEBI	500,377	336,237	164,140	16,205
KEBB	124,070	98,368	25,702	2,765
NYFinCo	414,065	375,774	38,291	3,367
LAFinCo	311,787	270,135	41,652	4,589
USAI	7,488	3	7,485	459
KAF	74,993	18,017	56,976	317
KEB China	1,655,841	1,225,452	430,389	20,758
Trust agreement to preserve income	87	84	3	-

2. BASIS OF PREPARATION:

The Company and its subsidiaries (the "Consolidated Group") have adopted Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011.
The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.
The Consolidated Group maintains its official accounting records in the Republic of Korean won ("Won") and prepares the consolidated financial statements in conformity with K-IFRS, in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices.

3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies under K-IFRS followed by the Consolidated Group in the preparation of its consolidated financial statements are summarized as follows. These accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of the consolidated financial statements for the year ended December 31, 2011, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.
The consolidated financial statements for the year ended December 31, 2012 were approved by the Board of Directors' on March 5, 2013.

1) Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

— **Amendments to K-IFRS 1107 *Disclosures – Transfers of Financial Assets***

The Consolidated Group may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Consolidated Group is exposed, description of the nature of the relationship between the transferred assets and the associated liabilities and carrying value of the associated liabilities. When the Consolidated Group continues its involvement on the transferred assets although the transferred assets are derecognized in their entirety, the Consolidated Group discloses the carrying amounts of the transferred assets and the associated liabilities and information showing how the maximum exposure to loss. The disclosures due to the application of these amendments are disclosed in Note 12 (8).

— **Amendments to K-IFRS 1012 – *Income Taxes***

The Consolidated Group has applied the amendments to K-IFRS 1012 *Income Taxes* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with K- IFRS 1040 *Investment Property* are presumed to be recovered entirely through sale for the purpose of measuring deferred taxes unless the presumption is rebutted. Also, non-depreciable property and equipment that are measured using revaluation model in accordance with K-IFRS 1016 *Property, Plant and Equipments* are presumed to be recovered through sale for the purposes of measuring deferred taxes. The amendments do not have impact on the consolidated financial statements.
The amendments to K-IFRS 2114 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation*
The amendments permit the benefit of such prepayment arising from the minimum funding requrements to be recognized as an asset which were not allowed to be recognized before the amendments. The amendments do not have impact on the consolidated financial statements.

2) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective.

— **Amendments to K-IFRS 1001 – *Presentation of Financial Statements***

The amendments to K-IFRS 1001 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to net income and (b) items that may be reclassified subsequently to net income when specific conditions are met. The amendments are effective annual periods beginning on or after July 1, 2012. The Consolidated Gruop does not anticipate that these amendments referred above will have a significant effect on the consolidated financial statements and disclosures.

— **Amendments to K-IFRS 1019 – *Employee Benefits***

The amendments to K-IFRS 1019 require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and the accelerate the recognition of past service costs. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013. The Consolidated Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

— **Amendments to K-IFRS 1032 – *Financial Instruments: Presentation***

The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.
The Consolidated Group's right to offset must not be conditional on the occurrence of future events but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on January 1, 2014. The Consolidated Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

— **Amendments to K-IFRS 1107 – *Financial Instruments: Disclosures***

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The amendments to K-IFRS 1107 are effective for annual periods beginning on or after January 1, 2013. The Consolidated Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

— **K-IFRS 1110 – *Consolidated Financial Statements***

The amendments to K-IFRS 1110 include a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. This standard is effective for annual periods beginning on or after January 1, 2013. The Consolidated Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

— **K-IFRS 1111 *Joint Arrangement***

K-IFRS 1111 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under K-IFRS 1111, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. If the Consolidated Group is a joint operator, the Consolidated Group is to recognize assets, liabilities, revenues and expenses proportionally to its investment and if the Consolidated Group is a joint ventures, the Consolidated Group is to account for that investment using the equity method accounting. This standard is effective for annual periods beginning on or after January 1, 2013. The Consolidatd Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

— **K-IFRS 1112 *Disclosure of Interest in Other Entities***

K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates, or unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. The Consolidated Group is reviewing the impact of the application of this standard on the consolidated financial statements.

— **K-IFRS 1113 *Fair Value Measurement***

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013. The Consolidated Group is reviewing the impact of the application of this standard on the financial statements.

(1) Basis of Consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities (including SPEs) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's ownership interests in subsidiaries, without loss of control, are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(2) SPE

There are some entities that are consolidated, although the Consolidated Group owns less than one-half of the voting power of those entities. Most of them were established as SPEs. A SPE usually forms an unincorporated entity or partnership, although it does not have a definite legal form.

Conditions for SPEs to be consolidated are as follows:

- The activities of an SPE are being conducted on behalf of the Consolidated Group according to its specific business needs so that the Consolidated Group obtains benefits from the SPE's operation;
- The Consolidated Group has the decision-making powers to obtain the majority of the benefits from the activities of an SPE or, by setting up an 'autopilot' mechanism, the Consolidated Group has delegated these decision-making powers;

- The Consolidated Group has rights to obtain the majority of benefits from an SPE and, therefore, may be exposed to risks incident to the activities of the SPE;
- The Consolidated Group retains the majority of residual or ownership risks related to an SPE or its assets in order to obtain benefits from the activities of the SPE.

(3) Revenue Recognition

1) Interest revenues (expenses)

Interest revenues (expenses) are recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest revenues or interest expense over the relevant period.

2) Commission revenues (expenses)

According to the imposition purpose of the commission and related accounting standards for financial assets, commission revenues are classified as and accounted for as follows:

Classification	Details
Commission composing effective revenues of the financial instruments	Accounted for as an adjustment to the effective interest rate
Commission by rendering services	Revenue recognized when the services are provided
Commission by performing significant activities	Revenue recognized when significant activities have been completed

3) Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

(4) Financial assets

Financial assets and financial liabilities are recognized when the Consolidated Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in net income.

All regular way purchases or sales of financial assets are recognized or derecognized on the trade date. A regular way purchase or sale is a purchases or sale of a financial asset under a contract whose term requires delivery of assets within the time frame established by regulation or convention in the marketplace concerned.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments ("HTM"), available-for-sale financial assets ("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term
- on initial recognition, it is part of a portfolio of identified financial instruments that the Consolidated Group manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument

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A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- in accordance with the Consolidated Group's documented risk management or investment strategy, the financial asset forms part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value, and information of the grouping is provided internally on that basis, or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL

2) AFS financial assets

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at financial assets AFS.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized net income. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of gain or loss on change in fair value of AFS financial assets. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income.

Dividends on AFS equity instruments are recognized in net income when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in net income are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

3) HTM investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Consolidated Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. HTM investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Loans, due from banks and leasehold deposit paid are classified as loans and receivables.

5) Deferred loan origination fees ("LOFs") and loan origination costs ("LOCs")

The Consolidated group defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized using the effective interest method with the amortization recognized as adjustments to interest revenue.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

AFS Financial Assets

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through net income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

HTM Investments

For HTM investments measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Loans and Receivables

For loans and receivables measured at amortized cost, impairment 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 Consolidated Group first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Consolidated Group assesses whether the objective evidence of impairment exists individually or collectively. If the Consolidated 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).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

① Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits by individual assessment is recognized by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's management performance, financial position, overdue period, and mortgage amount.

② Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits by collective assessment is measured using probability of default ("PD") and loss given default ("LGD"), which are calculated by adjusting PD and LGD on Basel II model for accounting purpose. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inherent loss and determine variables based on historical loss experience and current conditions.

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7) Derecognition of financial assets

The Consolidated Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Consolidated Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Consolidated Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Consolidated Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Consolidated Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the part of financial asset is qualified for the derecognition, the entire carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between (1) the carrying amount allocated to the part derecognized and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and is derecognized, based on the relative fair values of those parts.

8) Offsetting of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Consolidated Group has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Consolidated Group after deducting all of its liabilities.

3) Financial liabilities

Financial liabilities are recognized when the Consolidated Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL is recognized immediately in net income.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when either the financial liability is held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term,
- on initial recognition, it is part of a portfolio of identified financial instruments that the Consolidated Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- in accordance with the Consolidated Group's documented risk management or investment strategy, the financial liability forms part of

a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis or

- it forms part of a contract containing one or more embedded derivatives and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Consolidated group derecognize financial liabilities when the Consolidated Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Hybrid securities

Hybrid securities are classified as an equity when all requirements for equity classification are satisfied in conformity with contract terms.

5) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer 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 instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets* and
- The amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

(6) Fair Values

1) Methods and assumptions applied in measurement of fair values

Fair values of financial assets or liabilities are determined as follows:

- fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where they are available under standard requirements for transactions.
- for other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are observable market data.
- the quoted market prices are used for derivatives if traded in an active market. All other derivatives, for which quoted market price is not available, are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis using option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using yield curve derived from corresponding interest rate to published future exchange rate and maturity.

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2) Three-level fair value hierarchy

The Consolidated Group classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

Classification	Details
(Level 1)	Quoted prices (unadjusted) in active markets for identical assets or liabilities
(Level 2)	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
(Level 3)	Inputs for the asset or liability that are not based on the observable market data (unobservable inputs)

(7) Derivative Financial Instruments

The Consolidated Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting profit or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship.

The Consolidated Group designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

An embedded derivative shall be 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 contracts,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- and the hybrid instrument is not measured at fair value with changes in fair value recognized in net income.

2) Hedge accounting

At the inception of the hedge relationship, the Consolidated Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Consolidated Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Consolidated Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

4) Deferred Day 1 profit

The Consolidated Group assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) agree with a theoretical methodology used to determine prices of financial instruments.

However, the Consolidated Group defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology is not satisfied with the above requirements.

Deferred Day 1 profit is recognized in net income when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

(8) Investments in Subsidiaries and Associates

Associates are the entities that the Consolidated Group has significant effect on, but neither their subsidiaries nor investments in joint ventures. Significant effect is the ability to participate in the determination of investees' financial and operating policies, but neither controlling nor joint control. The financial results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Consolidated Group's share of net income and other comprehensive income of the associate. When the Consolidated Group's share of losses of an associate exceeds the Consolidated Group's interest in that associate (which includes any long-term interests that, in substance, form a part of the Consolidated Group's net investment in the associate), the Consolidated Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Consolidated Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Consolidated Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, *Impairment of Assets*, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

When the consolidated entity transacts with its associate, net income resulting from the transactions with the associate is recognized in the Consolidated Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Consolidated Group.

(9) Foreign Currencies

1) Functional currency and presentation currency

The individual financial statements of each entity in the Consolidated Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the financial results and position of each entity in the Consolidated Group are expressed in Korean won, which is the functional currency of the Consolidated Group and the presentation currency for the consolidated financial statements.

2) Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in net income in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (7) above for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment.

3) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Consolidated Group's foreign operations are expressed in currency units using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

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On the disposal of a foreign operation (i.e., a disposal of the Consolidated Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Consolidated Group are reclassified to net income. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to net income. In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in net income. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to net income. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(10) Retirement Benefit Costs

For defined benefit retirement plans, the cost of providing benefits is determined by Hewitt, an actuary services Consolidated Group, using the Projected Unit Credit Method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of highly graded corporate bond (AAA bond with interest rate) whose date of payment and maturity is similar to that of defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between assumptions and actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The Consolidated Group enters into agreements, such as retirement insurance, retirement trust, and retirement annuity with Samsung Life Insurance in order to meet their severance obligations to its employees. The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(11) Share-based Payment

For equity-settled, share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled, share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Consolidated Group with the choice of whether to settle in cash or by issuing equity instruments, the Consolidated Group shall determine whether it has a present obligation to settle in cash. If no obligation exists, it shall account for the transaction in accordance with the requirements applying to equity-settled, share-based transactions. However, if it has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled, share-based transactions.

(12) Property, Plant and Equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which 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. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Consolidated Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred. The Consolidated Group does not depreciate land. Depreciation expense is computed using the depreciation method and the estimated useful lives of the assets are as follows:

Tangible assets	Estimated useful life	Depreciation method
Construction	40 years	Straight-line
Leasehold improvements	3–10 years	Straight-line
Equipment	3–20 years	Declining-balance

A tangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(13) Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in net income in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income on the period of the occurrence.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(14) Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(15) Non-current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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(16) Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Consolidated Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. A reversal of an impairment loss is recognized immediately in net income.

(17) Provisions

Provisions are recognized when the Consolidated Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Consolidated Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Consolidated Group does not recognize provisions for future operating losses.

The Consolidated Group recognizes provisions related to unused credit card points amount, guarantee, and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets which is recognized as tangible assets. Decommissioning or restoration costs are present value of expected costs of restoration using future cash outflows.

(18) Accounting for Trust Accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's account are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, the deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed-return trusts to cover such deficiencies, these contributions are reflected as operating expense of the Company's accounts and as other income of the trust accounts.

(19) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Consolidated Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Consolidated Group's net investment outstanding in respect of the leases.

(20) Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated. Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

1) Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

2) Cash Management Accounts ("CMA")

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

(21) Income Taxes

Income tax consists of current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Consolidated Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Consolidated Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, 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 tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities in the same tax jurisdiction and the Consolidated Group's legal right to offset tax liabilities and assets only if the Consolidated Group intends to pay current tax liabilities and assets are presented on a net basis.

3) Current and deferred tax for the year

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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4. ESTIMATION AND ACCOUNTING JUDGMENT:

In the application of the Consolidated Group's accounting policies described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

1) Critical judgments in applying accounting policies

HTM INVESTMENTS

Management has reviewed the Consolidated Group's HTM investments in light of its capital maintenance and liquidity requirements and has confirmed the Consolidated Group's positive intention and ability to hold those assets to maturity. The carrying amount of the HTM investments is ₩5,126,353 million. Details of these assets are set out in Note 13.

SIGNIFICANT HEDGE RELATIONSHIPS

As described in Note 3 (7), the Consolidated Group designates certain derivatives as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges). Also, fair value hedge accounting is applied for the purpose of avoiding risk of fair value changes of recognized asset, liabilities or unrecognized confirmed contract as a whole or partly. And cash flow hedge accounting is applied for the purpose of avoiding risk of cash flow changes of recognized asset, liabilities and expected transactions which are highly about to happen.

2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

DETERMINATION OF FAIR VALUES

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

ALLOWANCE FOR POSSIBLE LOSSES ON CREDITS

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities by collective method.

MEASUREMENT OF DEFINED BENEFIT OBLIGATION

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, expected return on plan assets, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term. As the defined benefit obligation and fair value of plan asset as of December 31, 2012, is ₩282,459 million and ₩259,586 million, respectively, the net obligation of defined benefit amounts to ₩22,873 million, the details of which are described in Note 31.

5. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES:

The standards the Consolidated Group applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.

B. If a market for a financial instrument is not active, the Consolidated Group establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's-length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option-pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.

D. For an investment in equity instruments for which quoted market price is not available in an active market or derivative linked to such instruments for which fair values are not measured reliably, fair values are measured at cost.

(1) Hierarchy of fair values

Fair value hierarchy of financial instruments as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification		Dec. 31, 2012						
		Quoted market price (Level 1)		Observable inputs (Level 2		Unobservable inputs (Level 3)		Total
Financial assets:								
Financial assets at FVTPL	₩	121,781	₩	1,340,918	₩	15,380	₩	1,478,079
Hedging derivative assets		-		37,867		-		37,867
AFS financial assets		2,767,970		3,668,386		590,165		7,026,521
Total	₩	2,889,751	₩	5,047,171	₩	605,545	₩	8,542,467
Liabilities:								
Financial liabilities at FVTPL	₩	-	₩	1,308,582	₩	171	₩	1,308,753

Classification		Dec. 31, 2011						
		Quoted market price (Level 1)		Observable inputs (Level 2)		Unobservable inputs (Level 3)		Total
Financial assets:								
Financial assets at FVTPL	₩	408,156	₩	1,065,215	₩	10,622	₩	1,483,993
Hedging derivative assets		-		32,537		-		32,537
AFS financial assets		3,128,983		2,255,855		735,855		6,120,693
Total	₩	3,537,139	₩	3,353,607	₩	746,477	₩	7,637,223
Liabilities:								
Financial liabilities at FVTPL	₩	-	₩	964,634	₩	3,486	₩	968,120
Financial liabilities at FVTPL		-		897		-		897
Total	₩	-	₩	965,531	₩	3,486	₩	969,017

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(2) The changes in Level 3 financial instruments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012						
				Valuation			
	Beginning balance	Acquisition/ Issuance	Disposal/ Payment	Income	Other comprehensive income	Others	Ending balance
Financial assets:							
Financial assets at FVTPL	₩ 10,622	₩ 6,949	₩ (3,824)	₩ 1,633	₩ -	₩ -	₩ 15,380
AFS financial assets	735,855	69,696	(241,251)	(18,289)	45,455	(1,301)	590,165
	₩ 746,477	₩ 76,645	₩ (245,075)	₩ (16,656)	₩ 45,455	₩ (1,301)	₩ 605,545
Financial liabilities:							
Financial liabilities at FVTPL	₩ 3,486	₩ 202	₩ (1,285)	₩ (2,184)	₩ -	₩ (48)	₩ 171

Classification	Dec. 31, 2011						
				Valuation			
	Beginning balance	Acquisition/ Issuance	Disposal/ Payment	Income	Other comprehensive income	Others	Ending balance
Financial assets:							
Financial assets at FVTPL	₩ 14,508	₩ 3,673	₩ (1,790)	₩ (6,032)	₩ -	₩ 263	₩ 10,622
AFS financial assets	1,376,864	29,361	(658,043)	(6,624)	(5,967)	264	735,855
	₩ 1,391,372	₩ 33,034	₩ (659,833)	₩ (12,656)	₩ (5,967)	₩ 527	₩ 746,477
Financial liabilities:							
Financial liabilities at FVTPL	₩ 2,483	₩ 15,007	₩ (14,051)	₩ 86	₩ -	₩ (39)	₩ 3,486

6. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair values of financial instruments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012		Dec. 31, 2011	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and due from banks	₩ 8,093,842	₩ 8,093,842	₩ 8,397,528	₩ 8,397,528
Financial assets at FVTPL	1,478,079	1,478,079	1,483,993	1,483,993
Hedging derivative assets	37,867	37,867	32,537	32,537
AFS financial assets	7,026,521	7,026,521	6,120,693	6,120,693
HTM investments	5,126,353	5,162,830	5,462,329	5,488,206
Loans (*1)	70,353,991	70,477,438	67,944,287	68,160,790
Other financial assets (*2)	7,775,108	7,775,148	7,115,138	7,120,472
Merchant banking account assets (*3)	2,488,216	2,488,216	2,352,503	2,357,522
Total	₩ 102,379,977	₩ 102,539,941	₩ 98,909,008	₩ 99,161,741

Financial liabilities:								
Deposits	₩	66,781,589	₩	66,801,454	₩	64,429,609	₩	64,431,367
Financial liabilities at FVTPL		1,308,753		1,308,753		968,120		968,120
Hedging derivative liabilities		-		-		897		897
Borrowings		6,925,705		6,928,063		9,330,215		9,328,764
Debentures		6,173,426		6,259,622		5,460,024		5,586,570
Other financial liabilities (*4)		12,535,904		12,535,936		9,796,996		9,797,022
Merchant banking account liabilities (*5)		525,839		525,839		747,785		747,785
Total	₩	94,251,216	₩	94,359,667	₩	90,733,646	₩	90,860,525

(*1) Net carrying amount after deduction of allowance for possible loan losses and deferred LOF/LOC
(*2) Include receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances for possible loan losses, including merchant banking loans, merchant banking account trading securities, and CMA assets
(*4) Include payables spot exchange, domestic exchange settlement credit, trust account payables, etc.
(*5) Include merchant banking account deposits, accrued expenses

7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY:

Financial assets and liabilities by category as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012											
		Trading financial instruments		AFS financial instrument		HTM investments		Financial instruments measured at amortized cost		Hedge accounting derivatives		Total
Financial assets:												
Cash and due from banks	₩	-	₩	-	₩	-	₩	8,093,842	₩	-	₩	8,093,842
Financial assets at FVTPL		1,478,079		-		-		-		-		1,478,079
Hedging derivative assets		-		-		-		-		37,867		37,867
AFS financial assets		-		7,026,521		-		-		-		7,026,521
HTM investments		-		-		5,126,353		-		-		5,126,353
Loans		-		-		-		70,353,991		-		70,353,991
Other financial assets		-		-		-		7,775,108		-		7,775,108
Merchant banking account assets		1,805,965		-		-		682,251		-		2,488,216
Total	₩	3,284,044	₩	7,026,521	₩	5,126,353	₩	86,905,192	₩	37,867	₩	102,379,977
Financial liabilities:												
Deposits	₩	-	₩	-	₩	-	₩	66,781,589	₩	-	₩	66,781,589
Financial liabilities at FVTPL		1,308,753		-		-		-		-		1,308,753
Borrowings		-		-		-		6,925,705		-		6,925,705
Debentures		-		-		-		6,173,426		-		6,173,426
Other financial liabilities		-		-		-		12,535,904		-		12,535,904
Merchant banking account liabilities		-		-		-		525,839		-		525,839
Total	₩	1,308,753	₩	-	₩	-	₩	92,942,463	₩	-	₩	94,251,216

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Classification	Dec. 31, 2011					
	Trading financial instruments	AFS financial instrument	HTM investments	Financial instruments measured at amortized cost	Hedge accounting derivatives	Total
Financial assets:						
Cash and due from banks	₩ -	₩ -	₩ -	₩ 8,397,528	₩ -	₩ 8,397,528
Financial assets at FVTPL	1,483,993	-	-	-	-	1,483,993
Hedging derivative assets	-	-	-	-	32,537	32,537
AFS financial assets	-	6,120,693	-	-	-	6,120,693
HTM investments	-	-	5,462,329	-	-	5,462,329
Loans	-	-	-	67,944,287	-	67,944,287
Other financial assets	-	-	-	7,115,138	-	7,115,138
Merchant banking account assets	1,565,867	-	-	786,636	-	2,352,503
Total	₩ 3,049,860	₩ 6,120,693	₩ 5,462,329	₩ 84,243,589	₩ 32,537	₩ 98,909,008
Financial liabilities:						
Deposits	₩ -	₩ -	₩ -	₩ 64,429,609	₩ -	₩ 64,429,609
Financial liabilities at FVTPL	968,120	-	-	-	-	968,120
Hedging derivative liabilities	-	-	-	-	897	897
Borrowings	-	-	-	9,330,215	-	9,330,215
Debentures	-	-	-	5,460,024	-	5,460,024
Other financial liabilities	-	-	-	9,796,996	-	9,796,996
Merchant banking account liabilities	-	-	-	747,785	-	747,785
Total	₩ 968,120	₩ -	₩ -	₩ 89,764,629	₩ 897	₩ 90,733,646

8. RISK MANAGEMENT:

The risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management task force team. Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors.
The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. The risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.
The Consolidated Group distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Consolidated Group retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Consolidated Group classifies risks to significant risks and residual risks:
- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Consolidated Group consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports to the management.
The Consolidated Group defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level to reserved capital. It regularly assesses and manages the reasonableness of internal capital by comparing available capital and combined internal capital. Reserved capital as capital buffer is determined by the risk management committee so as to prepare additional possibility of losses, emergency situations, incompleteness of information systems and fluctuation of available capital and strictly managed as a risk propensity index.
In addition, the Consolidated Group assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate by regulation of Financial Supervisory Service.
The Consolidated Group efficiently manages risks by preparing principles for assessment and management in order to maximize shareholders' profits, and constructs combined risk management system, considering risks, profits and growth.

(1) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Group. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that could damage the financial soundness of the Consolidated Group by improving the soundness of assets through setup of credit ratings and credit screening and quantifying and regularly managing credit risks.
The Consolidated Group implements a system that divides and operates marketing and screening for the management purpose. It also employs a total exposure limit system to solve weighted credits and disperse risks and an early alert system to discover an insolvent company and establish countermeasures.
The Consolidated Group separately measures expected losses and unexpected losses. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses. It is computed through advanced internal ratings-based method under Bank for International Settlements ("BIS") Basel II.

The Consolidated Group's level of exposure to credit risk as of December 31, 2012 and 2011 is summarized as follows (Unit: In millions):

		Dec. 31, 2012		Dec. 31, 2011
Loans and credit commitments	₩	59,485,926	₩	53,059,207
Guarantees and endorsed notes		15,617,751		14,561,146
Total	₩	75,103,677	₩	67,620,353

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(2) Market risk

Market risk is the uncertainty and possibility of losses from overall management activities and divided into general market risk and specific risk. General market risk is the risk to The Consolidated Group's earnings arising from changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of trading position arising from changes in credit risks.

1) Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The managing targets are interest rate, stock price, foreign currencies, and derivatives, including:
- assets classified as trading securities in accordance with K-IFRS,
- derivatives for trading and hedged derivatives for which hedge accounting is not applied,
- trust account securities with agreements to guarantee principal or interest and
- foreign currency exchange position regulated by Korean Banking Laws.

The Consolidated Group uses an internal model for measurement of market risk. The purpose of internal model is to compute required capital by VaR using historical simulation with a confidence level of 99.0 percent and 10-day (one day) retaining period. VaR using historical simulation sets up 10 business days' (one business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and lines up in order of values and computes the difference between the value of low second-ranked portfolio and current portfolio. In addition, the Consolidated Group always reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Consolidated Group performs back-testing on a daily basis so as to procure the suitability of internal model and stress testing to prepare emergency situation not reflected in the recent market elements.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group/department is reported to management on a daily basis and to risk management operating committee on a monthly basis.

Market risk VaR for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions):

Type	Dec. 31, 2012				Dec. 31, 2011			
	High	Low	Average	Ending	High	Low	Average	Ending
Interest rate risk	₩ 21,197	₩ 4,316	₩ 11,549	₩ 6,266	₩ 9,530	₩ 2,298	₩ 4,809	₩ 3,324
Stock price risk	44,199	7,701	15,717	7,701	27,605	3,619	12,735	5,296
Foreign currency risk	84,126	4,404	32,073	52,205	24,877	1,734	11,819	4,509
Option risk	4,288	363	1,842	2,698	6,974	106	2,063	193
Total risks (*)	₩ 95,383	₩ 15,651	₩ 47,183	₩ 55,669	₩ 45,193	₩ 8,243	₩ 26,099	₩ 9,619

(*) The total portfolio risk is not equal to the sum of the individual component risks because it is computed by considering the correlations of the risks.

2) Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, to interest rate risk assessment.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index. Internal capital limit management is classified as Korean won, foreign currencies, overseas and trust fund.

The result of interest rate measurement is reported to risk management operating committee on a monthly basis.

Details of interest rate VaR, except for trading portfolio for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Type	Dec. 31, 2012				Dec. 31, 2011			
	High	Low	Average	Ending	High	Low	Average	Ending
Interest rate risk	₩ 288,076	₩ 60,146	₩ 150,203	₩ 288,076	₩ 162,696	₩ 122,581	₩ 140,163	₩ 122,581

(*) The total portfolio risk is not equal to the sum of the individual component risks because it is computed by considering the correlations of the risks.

(3) Liquidity risk

1) General

Liquidity risk is the risk that the consolidated Group is unable to meet its payment obligations arising from financial liabilities as they fall due.

2) Liquidity risk management

The Consolidated Group proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Additionally, it regularly performs liquidity stress test, comprehend deficit, and reflect in the emergency funding plan.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as Basel III liquidity risk regulation ratio.

Liquidity risk management is targeting for on- and off- balance assets, liabilities and derivatives and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012						
	Immediate payment	1 month or less	1 – 3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
Deposits	₩ 27,721,285	₩ 7,657,947	₩ 9,570,790	₩ 20,862,480	₩ 2,124,313	₩ 177,775	₩ 68,114,590
Financial liabilities at FVTPL	1,308,753	-	-	-	-	-	1,308,753
Borrowings	1,412,909	1,534,459	1,334,492	1,399,291	1,237,135	132,910	7,051,196
Debentures	132	168,240	457,289	1,440,266	4,017,427	767,276	6,850,630
Other financial liabilities	2,051	12,511,446	2,089	16,349	3,853	116	12,535,904
Merchant banking account liabilities	525,654	185	-	-	-	-	525,839
Loan commitment	59,485,926	-	-	-	-	-	59,485,926
Finance guarantee	731,557	-	-	-	-	-	731,557
Total	₩ 91,188,267	₩ 21,872,277	₩ 11,364,660	₩ 23,718,386	₩ 7,382,728	₩ 1,078,077	₩ 156,604,395

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Classification	Dec. 31, 2011						
	Immediate payment	1 month or less	1 –3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
Deposits	₩ 27,407,957	₩ 6,582,109	₩ 8,861,570	₩ 20,508,218	₩ 2,275,854	₩ 241,517	₩ 65,877,225
Financial liabilities at FVTPL	968,120	-	-	-	-	-	968,120
Hedging derivative liabilities	-	-	172	593	161	-	926
Borrowings	2,374,387	2,376,986	1,870,030	1,447,087	1,269,386	146,291	9,484,167
Debentures	222	179,849	517,931	2,266,476	2,709,856	322,906	5,997,240
Other financial liabilities	825,899	8,914,874	3,871	25,383	26,969	-	9,796,996
Merchant banking account liabilities	747,585	200	-	-	-	-	747,785
Loan commitment	53,059,207	-	-	-	-	-	53,059,207
Finance guarantee	618,643	-	-	-	-	-	618,643
Total	₩ 86,002,020	₩ 18,054,018	₩ 11,253,574	₩ 24,247,757	₩ 6,282,226	₩ 710,714	₩ 146,550,309

9. SEGMENT INFORMATION:

(1) Segment units

The business sectors of the Consolidated Group are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

Classification		Business
Individual Finance	Retail banking	Receiving and giving credit to household
	Credit card	Issue, use and payment of credit card and others
	Trust	Retirement pension and so on
Corporate Finance	Corporate banking	Receiving and giving credit to enterprise, securities investment, derivative transactions and others
Fund Market	Fund market management	Investing and managing securities
Others	International banking	Support for enterprises to expand their business abroad and others
	Others	Management and others

(2) Information of segment profit or loss and segment assets

1) Net income by business segment for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	2012						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Segment operating income:							
Net interest income	₩ 855,856	₩ 1,034,569	₩ 70,918	₩ (113,108)	₩ 1,848,235	₩ 617,742	₩ 2,465,977
Net commission income	352,271	261,422	(21,108)	116,425	709,010	(530,380)	178,630
Net other operating income	84,076	218,951	106,837	84,658	494,522	25,280	519,802
Subtotal	1,292,203	1,514,942	156,647	87,975	3,051,767	112,642	3,164,409

Segment operating expenses:							
General and administrative expenses	558,390	372,526	25,523	647,713	1,604,152	(31,188)	1,572,964
Segment operating profit	733,813	1,142,416	131,124	(559,738)	1,447,615	143,830	1,591,445
Transfer to (reversal of) allowances for possible losses on credits (*1)	239,270	331,905	-	(381,909)	189,266	482,208	671,474
Income tax expense	(422)	32,229	60,928	115,242	207,977	53,142	261,119
Segment net income	₩ 494,965	₩ 778,282	₩ 70,196	₩ (293,071)	₩ 1,050,372	₩ (391,520)	₩ 658,852

(*1) Transfer to (reversal of) allowances for possible losses on credit include allowance for possible loan losses, reversal of provision for acceptances and guarantees, and transfer to provision for unused credit limit.

Classification	2011						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Segment operating income:							
Net interest income	₩ 781,047	₩ 1,172,037	₩ 34,054	₩ 43,111	₩ 2,030,249	₩ 519,640	₩ 2,549,889
Net commission income	516,757	292,830	(9,153)	(26,167)	774,267	(526,769)	247,498
Net other operating income	94,778	1,203,964	116,095	(83,157)	1,331,680	28,902	1,360,582
Subtotal	1,392,582	2,668,831	140,996	(66,213)	4,136,196	21,773	4,157,969
Segment operating expenses:							
General and administrative expenses	517,592	430,287	17,147	479,262	1,444,288	46,271	1,490,559
Segment operating profit	874,990	2,238,544	123,849	(545,475)	2,691,908	(24,498)	2,667,410
Transfer to (reversal of) allowances for possible losses on credits (*1)	40,749	58,953	-	409,549	509,251	(939)	508,312
Income tax expense	-	66,505	17,555	431,564	515,624	(11,191)	504,433
Segment net income	₩ 834,241	₩ 2,113,086	₩ 106,294	₩ (1,386,588)	₩ 1,667,033	₩ (12,368)	₩ 1,654,665

(*1) Transfer to (reversal of) allowances for possible losses on credit include allowance for possible loan losses, reversal of provision for acceptances and guarantees, and reversal of provision for unused credit limit.

2) Income from customers and transaction between segments, by business segment, for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Income from customers	₩ 1,227,154	₩ 1,489,329	₩ 191,168	₩ 144,116	₩ 3,051,767	₩ 112,642	₩ 3,164,409
Income between segments	65,049	25,613	(34,521)	(56,141)	-	-	-
Total	₩ 1,292,203	₩ 1,514,942	156,647	₩ 87,975	₩ 3,051,767	₩ 112,642	₩ 3,164,409

Classification	2011						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Income from customers	₩ 1,347,874	₩ 2,214,000	₩ 151,412	₩ 422,910	₩ 4,136,196	₩ 21,773	₩ 4,157,969
Income between segments	44,708	454,831	(10,416)	(489,123)	-	-	-
Total	₩ 1,392,582	₩ 2,668,831	₩ 140,996	₩ (66,213)	₩ 4,136,196	₩ 21,773	₩ 4,157,969

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3) Significant non-cash items included in operating income by business segment for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Share of loss of associates, net	₩ -	₩ -	₩ -	₩ 679	₩ 679	₩ -	₩ 679
Depreciation and amortization	9,374	3,696	-	83,021	96,091	9,622	105,713
Total	₩ 9,374	₩ 3,696	₩ -	₩ 83,700	96,770	₩ 9,622	₩ 106,392

Classification	2011						
	Individual Finance	Corporate Finance	Fund Market	Others	Subtotal	Adjustment	Total
Share of loss of associates, net	₩ -	₩ -	₩ -	₩ 129	₩ 129	₩ -	₩ 129
Depreciation and amortization	9,889	18,285	-	74,446	102,620	(2,790)	99,830
Total	₩ 9,889	₩ 18,285	₩ -	₩ 74,575	₩ 102,749	₩ (2,790)	₩ 99,959

(3) Regional information

Financial information by region as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions):

Classification	Income from customers (*1)		Non-current assets (*2)	
	2012	2011	2012	2011
Domestic	₩ 2,848,241	₩ 3,846,568	₩ 1,448,138	₩ 1,436,659
Overseas				
Hong Kong	43,134	34,887	4,705	5,056
Singapore	13,887	12,883	221	338
USA	23,504	21,929	711	695
Japan	25,369	50,235	5,834	4,458
China	63,733	66,957	18,705	18,054
Indonesia	25,992	26,854	226	262
UK	16,896	16,232	115	259
Canada	33,874	30,646	3,329	3,200
Others	70,800	66,451	2,325	1,417
Subtotal	317,189	327,074	36,171	33,739
Consolidation adjustment	(1,021)	(15,673)	-	-
Total	₩ 3,164,409	₩ 4,157,969	₩ 1,484,309	₩ 1,470,398

(*1) Income from customers is divided into domestic and overseas based on location of branches and subsidiaries.
(*2) Non-current assets consist of property, plant and equipment, investment property, and intangible assets. They are divided into domestic and overseas based on location of assets.

10. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2012 and 2011 consist of (Unit: In millions):

Account	Financial institution		Dec. 31, 2012		Dec. 31, 2011
Cash		₩	1,708,793	₩	1,330,266
Due from banks in Korean won:					
Reserve deposit	B.O.K.		1,599,521		2,792,377
Monetary stabilization deposits	B.O.K.		-		400,000
Other due from banks	Other financial institutions		129,951		102,113
	Subtotal		1,729,472		3,294,490
Due from banks in foreign currencies:					
Reserve deposit	B.O.K. and others		2,673,431		2,417,879
Due from banks on time deposits	BAYERN LB and others		1,234,209		953,449
Other due from banks	Other financial institutions		747,937		401,444
	Subtotal		4,655,577		3,772,772
Total		₩	8,093,842	₩	8,397,528

(2) Restricted due from banks in Korean won and foreign currencies as of December 31, 2012 and 2011 consists of the following (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011	Reason for restriction
Due from banks in Korean won:					
Reserve deposit	₩	1,599,521	₩	2,792,377	Required under the B.O.K. Act
Monetary stabilization deposits		-		400,000	Deposits in the B.O.K. for the purpose of liquidity management of the B.O.K
Reserve for future trading		3		361	Subscription related to derivatives
Investors' deposit		50,179		42,694	Required under Financial Investment Services and Capital Markets Act
Subtotal		1,649,703		3,235,432	
Due from banks in foreign currencies:					
Reserve deposit		1,552,881		1,479,600	Required under the B.O.K. Act and other
Other due from banks		566,354		94,642	Subscription related to derivatives and others
Subtotal		2,119,235		1,574,242	
Total	₩	3,768,938	₩	4,809,674	

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11. FINANCIAL ASSETS AT FVTPL:

(1) Financial assets at FVTPL as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

Classification		Interest rate (%)	Fair value (Book value)			
			Dec. 31, 2012		Dec. 31, 2011	
Stocks	Samsung Electronics Co., Ltd., etc.	-	₩	21,107	₩	19,849
Government and public bonds	Treasury bonds	-		-		16,196
Financial bonds	Monetary stabilization securities	3.47–3.90		100,674		370,896
Securities in foreign currencies	Stocks	-		-		1,215
	Bonds	-		-		2,306
	Subtotal			-		3,521
Trading derivative assets (Note 18)				1,356,298		1,073,531
Total			₩	1,478,079	₩	1,483,993

(2) The valuation of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	Dec. 31, 2012							
		Face value		Acquisition cost		Adjustment by EIR method		Fair value (Book value)
Financial bonds	₩	100,000	₩	100,691	₩	100,672	₩	100,674

Classification	Dec. 31, 2011							
		Face value		Acquisition cost		Adjustment by EIR method		Fair value (Book value)
Government and public bonds	₩	16,000	₩	16,165	₩	16,168	₩	16,196
Financial bonds		370,000		370,741		370,721		370,896
Foreign bonds		2,307		2,303		2,275		2,306
Total	₩	388,307	₩	389,209	₩	389,164	₩	389,398

(3) The portfolio of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Industry	Dec. 31, 2012							
		In Korean won		In foreign currencies		Amount		Percentage (%)
Financial	₩	100,674	₩	-	₩	100,674	₩	100.00

Industry	Dec. 31, 2011							
		In Korean won		In foreign currencies		Amount		Percentage (%)
Financial	₩	370,896	₩	2,306	₩	373,202	₩	95.84
Public		16,196		-		16,196		4.16
Total	₩	387,092	₩	2,306	₩	389,398	₩	100.00

(4) The portfolio of trading securities and bonds, by country, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Country	Dec. 31, 2012							
		In Korean won		In foreign currencies		Amount		Percentage (%)
Korea	₩	100,674	₩	-	₩	100,674	₩	100.00

Country	Dec. 31, 2011							
		In Korean won		In foreign currencies		Amount		Percentage (%)
Korea	₩	387,092	₩	2,306	₩	389,398	₩	100.00

12. AFS FINANCIAL ASSETS:

(1) AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Type	Interest rate (%)	Fair value (Book value)			
				Dec. 31, 2012		Dec. 31, 2011
Securities	SK Hynix Inc. and others	-	₩	479,184	₩	635,901
Equity investment	Vogo Fund and others	-		86,862		78,175
Government and public bonds	Treasury bonds	3.00~5.75		786,863		90,129
	Housing bonds	3		48,641		19,989
	Other local bonds	2.96~4.25		463,431		170,128
	Subtotal			1,298,935		280,246
Financial bonds	Monetary stabilization securities	2.78~3.99		1,973,320		3,035,357
	Deposit bank bonds	3.04~8.87		330,098		362,121
	Small and medium-sized business banking bonds	2.82~4.04		169,510		178,163
	Industrial finance bonds	2.87~8.06		404,277		210,380
	Export-import credit bonds	3.07~3.98		80,455		19,746
	Subtotal			2,957,660		3,805,767
Corporate and other bonds	General bonds	3.03~6.36		969,454		669,418
	Industrial bonds invested by government	2.96~5.39		827,051		431,468
	Subtotal			1,796,505		1,100,886
Beneficiary certificates		-		6,429		-
Securities in foreign currencies	Foreign stocks	-		3,184		2,305
	Foreign bonds	1.25~8.00		358,449		151,443
	Foreign investment	-		802		548
	Subtotal	-		362,435		154,296
Other securities	Beneficiary rights certificates	-		38,511		65,422
Total			₩	7,026,521	₩	6,120,693

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(2) Details of securities (including foreign securities) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Book value before valuation		Gain (loss) on valuation	Fair value (Book value)			
						Dec. 31, 2012		Dec. 31, 2011
Marketable securities	₩	276,163	₩	29,244	₩	305,407	₩	464,500
Non-marketable securities		177,232		(271)		176,961		173,706
Total	₩	453,395	₩	28,973	₩	482,368	₩	638,206

1) Details of marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

Name of Investments	Dec. 31, 2012								Dec. 31, 2011	
	Number of shares	Ownership ratio (%)		Book value before valuation		Gain (loss) on valuation		Fair value (book value)		Fair value (book value)
SK Hynix Inc.	10,092,500	1.45	₩	215,212	₩	37,201	₩	252,413	₩	430,425
Kumho Tire Co., Inc.	2,160,000	1.71		18,919		4,945		23,864		18,919
Oriental Precision & Engineering Co., Ltd.	8,102,666	9.56		9,926		(154)		9,772		-
Daiyang Metal Co., Ltd.	7,563,000	16.48		6,618		-		6,618		-
Hanmi Bank	146,179	2.49		1,248		880		2,128		1,248
KCP Co., Ltd.	102,740	0.97		629		604		1,233		629
Chinhung International Inc.	3,002,000	0.67		1,447		(222)		1,225		-
SAMT Co., Ltd.	677,264	0.85		740		447		1,187		740
MB Shiroyama Co., Ltd.	1,819,342	1.80		1,299		(186)		1,113		1,299
Kumho Industrial Co., Ltd.	707,180	0.41		4,262		(3,194)		1,068		3,012
Taesan LCD Co., Ltd.	648,046	3.03		3,584		(2,608)		976		3,584
K-Top Reits Co., Ltd.	200,000	3.69		1,100		(288)		812		-
Hanil Engineering & Constructions Co., Ltd.	955,800	2.78		1,596		(929)		667		1,596
Ssangyong Engineering & Construction	191,934	0.64		1,214		(591)		623		1,214
Pharmicell	109,500	0.33		1,221		(663)		558		1,221
Pumyang Construction Co., Ltd.	28,157	2.81		452		21		473		-
Namkwang Engineering & Construction Co., Ltd.	122,349	3.26		6,316		(6,027)		289		-
DongBu-TS Black Pearl Special Purpose Acquisition Company	100,000	3.33		187		13		200		187
IBKS Smart SME Special Purpose Acquisition Company No.1	87,800	9.98		82		5		87		-
Others				111		(10)		101		426
Total			₩	276,163	₩	29,244	₩	305,407	₩	464,500

2) Details of non-marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

Name of Investments	Dec. 31, 2012					Dec. 31, 2011
	Number of shares	Ownership ratio (%)	Book value before valuation	Gain (loss) on valuation	Fair value (book value)	Fair value (book value)
Consumer Credit Assistant Fund Co., Ltd.	20,822	4.16	₩ 62,466	₩ (3,114)	₩ 59,352	₩ 62,466
The Korea Securities Finance Corporation	2,238,842	3.29	24,871	529	25,400	24,871
Pantech Co., Ltd.	40,937,557	2.49	17,808	164	17,972	17,808
Alpha Dome City Co., Ltd.	2,950,200	3.00	14,751	-	14,751	14,751
KRX	80,498	0.40	12,025	907	12,932	12,025
Korea Asset Management Corporation	1,266,000	2.43	6,330	-	6,330	6,330
Daewoo Electronics Corp.	36,142	6.79	5,362	(3)	5,359	5,362
Korea Enterprise Data Co., Ltd.	620,250	4.48	3,910	858	4,768	1,484
Dongbu Asset Management Co., Ltd.	540,000	9.00	3,443	(50)	3,393	3,443
The Kerr New Frontier Private Overseas Resources Development Special Assets Fund 4 (Oil Field)	3,069,254,410	1.24	3,000	-	3,000	1,955
DanHan Cornerstone Project Financing Investment	550,000	5.00	2,750	-	2,750	-
Korea Finance Security Co., Ltd.	117,580	9.80	2,427	252	2,679	2,427
Korea Money Brokerage Corporation	69,220	3.46	2,690	(129)	2,561	2,690
Ilsan Project Co., Ltd.	288,000	4.80	2,508	-	2,508	2,508
Korea Credit Bureau	72,000	3.60	2,176	122	2,298	3,627
Midan City Development Co., Ltd.	387,800	2.70	1,492	-	1,492	1,492
M cieta Development Co., Ltd.	255,000	2.50	1,275	-	1,275	1,275
Korea Smart Card	150,004	1.74	885	341	1,226	885
Hallyu Wood Company, Ltd.	120,000	3.00	1,200	-	1,200	1,200
Korea Credit-card Electronic-settlement Service Co., Ltd.	119,625	13.91	944	74	1,018	944
A Jin Paper Co., Ltd.	53,850	1.90	700	94	794	932
Booyoung Finance	100,000	5.00	576	(34)	542	576
Realty Advisors Korea, Ltd.	112,000	8.00	539	-	539	539
BLADEX	147,173	0.40	475	-	475	475
CLS Bank International	1,972	1.29	437	-	437	437
Golden Bridge Asset Management Co., Ltd.	80,000	4.00	463	(43)	420	463
Kores Co., Ltd.	492,000	4.64	322	1	323	322
Cosmotech Co., Ltd.	984,000	2.14	296	12	308	296
Mobile Appliance	1,104,814	14.10	461	(263)	198	461
K-TOP Reits Co., Ltd.	-	-	-	-	-	1,100
Others			650	11	661	562
Total			₩ 177,232	₩ (271)	₩ 176,961	₩ 173,706

From the amount above, ₩35,240 million (₩94,580 million as of December 31, 2011), including securities of Alpha Dome City Co., Ltd., was measured at acquisition cost because its fair value was not able to be measured reliably. The Consolidated Group measured fair values of non-marketable securities, using reasonable valuation method and estimations based on professional judgment of an independent external valuation agency. The independent agency measures the fair value by considering features of valuation target among Discounted Cash Flow Model, Imputed Market Value Model, and Risk-Adjusted Discount Rate Model.

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3) Details of AFS financial assets for which disposal is restricted as of December 31, 2012 and 2011, are as follows (Unit: Shares, In millions):

Name of Investments	Dec. 31, 2012			
	Number of shares		Book value	Restricted period
SK Hynix Inc.	10,092,500	₩	252,413	2013- 06-30
Kumho Tire Co., Inc.	2,160,000		23,864	2014-12-31
Oriental Precision & Engineering Co., Ltd.	8,102,666		9,772	2016-12-31
Daiyang Metal Co., Ltd.	7,563,000		6,618	2016-06-04
Daewoo Electronics Corp.	36,142		5,359	2013-03-31
Chinhung International Inc.	3,002,000		1,225	2013-03-31
SAMT Co., Ltd.	677,264		1,187	2013-06-30
Kumho Industrial Co., Ltd.	707,180		1,068	2014-12-31
Taesan LCD Co., Ltd.	648,046		976	2013-12-31
A Jin Paper Co., Ltd.	53,850		794	2015-12-31
Hanil Engineering & Constructions Co., Ltd.	955,800		667	2014-12-31
Ssangyong Engineering & Construction (*1)	191,934		623	-
Pumyang Construction Co., Ltd.	28,157		473	2013-06-04
Kores Co., Ltd.	492,000		323	2015-12-31
Namkwang Engineering & Construction Co., Ltd.	122,349		289	2013-03-31
Jaeyoung Solutec Co., Ltd.	61,333		48	2014-12-31
Others			16	
Total		₩	305,715	

(*1) The disposal of the investments will be determined through creditors' meeting.

Name of Investments	Dec. 31, 2011			
	Number of shares		Book value	Restricted period
SK Hynix Inc. (*1)	20,185,000	₩	430,425	-
Kumho Tire Co., Inc.	2,160,000		18,919	2014-12-31
Pantech Co., Ltd.	40,937,557		17,808	2011-12-31
Daewoo Electronics Corp.	36,142		5,362	2012-03-31
Taesan LCD Co., Ltd.	3,240,232		3,584	2013-12-31
Kumho Industrial Co., Ltd.	497,800		3,012	2014-12-31
Hanil Engineering & Constructions Co., Ltd.	955,800		1,596	2014-12-31
MB Shiroyama Co., Ltd.	1,819,342		1,299	2012-01-27
Ssangyong Engineering & Construction (*1)	191,934		1,214	-
A Jin Paper Co., Ltd.	71,800		932	2011-12-31
SAMT Co., Ltd.	677,264		740	2013-06-30
Kores Co., Ltd.	492,000		322	2015-12-31
EpiValley Co., Ltd.	198,770		174	2012-09-22
Jaeyoung Solutec Co., Ltd.	61,333		40	2012-12-31
Young Gwang Stainless Co., Ltd.	10,000		16	2012-12-31
Kem Oh Marine Co., Ltd.	34,500		-	2012-12-31
21st Century Shipbuilding Co., Ltd.	3,500		-	2012-12-31
Total		₩	485,443	

(*1) The disposal of the investments will be determined through creditors' meeting.

(3) Details of equity investment (including foreign investment) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Name of Investments	Dec. 31, 2012			Dec. 31, 2011
	Book value before valuation	Gain (loss) on valuation	Book value	Book value
United PF 1st corporate financial stability private investment company	₩ 33,768	₩ (1,283)	₩ 32,485	₩ -
Vogo Fund	17,346	2,278	19,624	27,116
ORIX-LTI Private Equity Fund	5,252	348	5,600	5,234
KT-LIG ACE Private Equity Fund Co., Ltd.	6,327	(1,081)	5,246	7,287
QCP 1 Private Equity Fund	4,253	686	4,939	4,253
STIC Private Equity Fund II (New Growth Engine)	3,454	143	3,597	3,271
Daishin-Heungkuk No.1 Private Equity Fund	3,100	131	3,231	1,300
Connex New Growth Private Equity Fund No.1	3,256	(44)	3,212	5,000
Corestone Private Equity Fund No.1	3,000	-	3,000	3,000
Value up Private Equity Fund	2,276	-	2,276	2,276
2010 KIF-Tube IT Fund	1,736	(73)	1,663	1,141
QCP 3 Private Equity Fund	930	-	930	930
2010 KIF-IMM IT Fund	848	-	848	328
Swift	802	-	802	548
Future Growth & Buy-out Private Equity Fund	210	-	210	180
SHCF Private Equity Fund	-	-	-	6,755
GoldenBriedge Green Private Equity Fund No.1	-	-	-	4,000
Hi Asian Contemporary Art Fund	-	-	-	3,083
Consus Investment Fund No.1	-	-	-	3,011
The Kerr-Nice NPL Fund No.1	-	-	-	9
Others	1	-	1	1
Total	₩ 86,559	₩ 1,105	₩ 87,664	₩ 78,723

For investment over ₩1,000 million, the Consolidated Group uses valued price measured by an external valuation agency every half year. Additionally, ₩5,790 million as of December 31, 2012 (₩14,365 million as of December 31, 2011), among the investment mentioned above is measured at acquisition cost since it is difficult to measure its fair value reliably.

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(4) Details of debt securities among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012							
		Face value		Acquisition cost		Adjustment by effective interest rate method		Fair value (Book value)
Government and public bonds	₩	1,293,587	₩	1,294,099	₩	1,294,725	₩	1,298,935
Financial bonds		2,938,739		2,957,220		2,955,266		2,957,660
Corporate and other bonds		1,780,000		1,836,950		1,791,970		1,796,505
Foreign bonds		336,480		359,432		357,537		358,449
Total	₩	6,348,806	₩	6,447,701	₩	6,399,498	₩	6,411,549

Classification	Dec. 31, 2011							
		Face value		Acquisition cost		Adjustment by effective interest rate method		Fair value (Book value)
Government and public bonds	₩	280,087	₩	282,828	₩	279,833	₩	280,246
Financial bonds		3,810,000		3,797,665		3,803,675		3,805,767
Corporate and other bonds		1,095,000		1,144,238		1,097,621		1,100,886
Foreign bonds		155,702		155,542		156,245		151,443
Total	₩	5,340,789	₩	5,380,273	₩	5,337,374	₩	5,338,342

(5) Changes of gain (loss) on valuation of AFS financial assets recorded as accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012									
		Beginning		Increase		Realized through disposal		Income tax effect		Ending
Securities	₩	277,670	₩	41,841	₩	(155,272)	₩	27,448	₩	191,687
Other equity securities		32,975		10,724		(22,270)		2,777		24,206
Government and public bonds		313		4,164		(367)		(919)		3,191
Financial bonds		1,586		1,761		(1,459)		(73)		1,815
Corporate and other bonds		2,474		3,635		(2,365)		(307)		3,437
Foreign bonds		(3,640)		2,058		3,657		(1,383)		692
Total	₩	311,378	₩	64,183	₩	(178,076)	₩	27,543	₩	225,028

Classification	2011									
		Beginning		Increase (decrease)		Realized through disposal		Income tax effect		Ending
Securities	₩	737,166	₩	(19,219)	₩	(560,022)	₩	119,745	₩	277,670
Other equity securities		37,506		12,700		(17,688)		457		32,975
Government and public bonds		1,786		(367)		(1,533)		427		313
Financial bonds		12,673		(3,189)		(10,989)		3,091		1,586
Corporate and other bonds		1,955		2,376		(1,636)		(221)		2,474
Foreign bonds		(4,291)		384		332		(65)		(3,640)
Total	₩	786,795	₩	(7,315)	₩	(591,536)	₩	123,434	₩	311,378

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(6) Details of gain or loss realized through disposal of AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012				2011			
		Realized gain		Realized loss		Realized gain		Realized loss
Securities	₩	196,860	₩	40	₩	1,182,283	₩	815
Other equity securities		104		-		101		112
Government and public bonds		3,925		-		161		-
Financial bonds		4,901		-		6,517		-
Corporate and other bonds		9,554		-		1,994		-
Foreign bonds		31,702		-		208		-
Total	₩	247,046	₩	40	₩	1,191,264	₩	927

(7) Details of dividend income from AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Securities	₩	8,464	₩	20,036
Other equity securities		3,447		27,634
Total	₩	11,911	₩	47,670

(8) Details of the transferred assets that do not qualify for derecognition and the associated liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012				Dec. 31, 2011			
		Book value		Fair value		Book value		Fair value
Transferred assets								
AFS financial assets (*1)	₩	-	₩	-	₩	29,985	₩	29,985
HTM investments		-		-		30,141		30,141
Total	₩	-	₩	-	₩	60,126	₩	60,126
Related liabilities								
Bonds sold under RPs	₩	190	₩	190	₩	22,245	₩	22,245

(*1) The AFS financial assets are the securities loaned under an agreement and will be returned to the Company. They have no associated liabilities.

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(9) Details of debt securities of AFS financial assets by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012			
	In Korean won	In foreign currencies	Total amount	Percentage (%)
Financial	₩ 3,059,611	₩ 318,931	₩ 3,378,542	52.70
Public	2,206,441	39,518	2,245,959	35.03
Manufacturing	160,488	-	160,488	2.50
Others	626,560	-	626,560	9.77
Total	₩ 6,053,100	₩ 358,449	₩ 6,411,549	100.00

Classification	Dec. 31, 2011			
	In Korean won	In foreign currencies	Total amount	Percentage (%)
Financial	₩ 3,981,628	₩ 105,810	₩ 4,087,438	76.56
Public	711,714	-	711,714	13.33
Manufacturing	70,741	37,390	108,131	2.03
Wholesale and retail	10,025	-	10,025	0.19
Others	412,791	8,243	421,034	7.89
Total	₩ 5,186,899	₩ 151,443	₩ 5,338,342	100.00

(10) Details of debt securities of AFS financial assets by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012			
	In Korean won	In foreign currencies	Total amount	Percentage (%)
Korea	₩ 6,053,100	₩ 331,848	₩ 6,384,948	99.58
Hong Kong	-	5,110	5,110	0.08
Others	-	21,491	21,491	0.34
Total	₩ 6,053,100	₩ 358,449	₩ 6,411,549	100.00

Classification	Dec. 31, 2011			
	In Korean won	In foreign currencies	Total amount	Percentage (%)
Korea	₩ 5,186,899	₩ 61,319	₩ 5,248,218	98.31
Singapore	-	41,858	41,858	0.78
Hong Kong	-	13,086	13,086	0.25
Japan	-	5,750	5,750	0.11
Others	-	29,430	29,430	0.55
Total	₩ 5,186,899	₩ 151,443	₩ 5,338,342	100.00

13. HTM INVESTMENTS:

(1) Details of HTM investments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Type	Interest rate (%)	Book value			
			Dec. 31, 2012		Dec. 31, 2011	
Government and public bonds	Treasury bonds	3.00~4.75	₩	344,281	₩	495,183
	Housing bonds	2.82~4.90		327,492		246,785
	Local development bonds	3.40~4.23		23,847		39,890
	Subtotal			695,620		781,858
Financial bonds	Monetary stabilization securities	2.78~3.99		3,221,941		3,601,145
	Deposit bank bonds	4.37~8.35		70,798		80,012
	Industrial finance bonds	6.12		10,020		20,059
	Subtotal			3,302,759		3,701,216
Corporate and other bonds	General bonds	3.71~8.11		170,879		222,689
	Industrial bonds invested by government	3.80~6.32		849,964		580,648
	Subtotal			1,020,843		803,337
Foreign securities	Foreign debt securities	0.20~7.63		107,131		175,918
Total			₩	5,126,353	₩	5,462,329

(2) Details of valuation of HTM investments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012							
		Face value		Acquisition costs		Adjustment by effective interest rate method		Book value
Government and public bonds	₩	693,843	₩	696,174	₩	695,620	₩	695,620
Financial bonds		3,300,000		3,303,882		3,302,759		3,302,759
Corporate and other bonds		1,010,000		1,033,844		1,020,843		1,020,843
Foreign bonds		108,324		106,428		107,131		107,131
Total	₩	5,112,167	₩	5,140,328	₩	5,126,353	₩	5,126,353

Classification	Dec. 31, 2011							
		Face value		Acquisition costs		Adjustment by effective interest rate method		Book value
Government and public bonds	₩	779,943	₩	778,325	₩	781,858	₩	781,858
Financial bonds		3,700,000		3,702,617		3,701,216		3,701,216
Corporate and other bonds		790,000		809,595		803,337		803,337
Foreign bonds		177,518		174,857		175,918		175,918
Total	₩	5,447,461	₩	5,465,394	₩	5,462,329	₩	5,462,329

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(3) Details of HTM investments by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012			
	In Korea won	In foreign currencies	Total amount	Percentage (%)
Financial	₩ 3,302,759	₩ 71,159	₩ 3,373,918	65.82
Public	1,545,584	25,261	1,570,845	30.64
Manufacturing	-	10,711	10,711	0.21
Others	170,879	-	170,879	3.33
Total	₩ 5,019,222	₩ 107,131	₩ 5,126,353	100.00

Classification	Dec. 31, 2011			
	In Korea won	In foreign currencies	Total amount	Percentage (%)
Financial	₩ 3,701,216	₩ 110,541	₩ 3,811,757	69.78
Public	1,362,506	46,847	1,409,353	25.80
Manufacturing	20,742	12,323	33,065	0.61
Others	201,947	6,207	208,154	3.81
Total	₩ 5,286,411	₩ 175,918	₩ 5,462,329	100.00

(4) Details of HTM investments by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012			
	In Korea won	In foreign currencies	Total amount	Percentage (%)
Korea	₩ 5,019,222	₩ 27,867	₩ 5,047,089	98.45
Brazil	-	26,455	26,455	0.52
USA	-	10,711	10,711	0.21
Others	-	42,098	42,098	0.82
Total	₩ 5,019,222	₩ 107,131	₩ 5,126,353	100.00

Classification	Dec. 31, 2011			
	In Korea won	In foreign currencies	Total amount	Percentage (%)
Korea	₩ 5,286,411	₩ 47,162	₩ 5,333,573	97.64
Singapore	-	42,547	42,547	0.78
Brazil	-	13,636	13,636	0.25
USA	-	11,533	11,533	0.21
Others	-	61,040	61,040	1.12
Total	₩ 5,286,411	₩ 175,918	₩ 5,462,329	100.00

14. MATURITY STRUCTURE OF AFS FINANCIAL ASSETS AND HTM INVESTMENTS:

Maturity structure of AFS financial assets and HTM investments as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	Dec. 31, 2012				
	Government and public bonds	Financial bonds	Corporate and other bonds	Foreign bonds	Total
AFS Financial assets:					
Less than 1 month	₩ -	₩ 419,757	₩ 29,964	₩ -	₩ 449,721
1–3 months	10,056	430,215	10,027	-	450,298
3–6 months	141,693	360,960	90,375	-	593,028
6 months–1 year	113,217	470,687	50,415	-	634,319
1-3 years	710,878	1,116,612	1,304,122	358,449	3,490,061
3-5 years	323,091	120,065	311,602	-	754,758
5-10 years	-	39,364	-	-	39,364
Total	₩ 1,298,935	₩ 2,957,660	₩ 1,796,505	₩ 358,449	₩ 6,411,549
HTM financial assets:					
1–3 months	₩ 12,966	₩ 100,020	₩ 130,204	₩ 32,610	₩ 275,800
3–6 months	34,931	1,429,939	261,205	11,549	1,737,624
6 months–1 year	123,239	840,831	60,529	897	1,025,496
1-3 years	522,285	911,171	568,905	60,046	2,062,407
3-5 years	2,199	10,798	-	1,630	14,627
5-10 years	-	10,000	-	399	10,399
Total	₩ 695,620	₩ 3,302,759	₩ 1,020,843	₩ 107,131	₩ 5,126,353

Classification	Dec. 31, 2011				
	Government and public bonds	Financial bonds	Corporate and other bonds	Foreign bonds	Total
AFS financial assets:					
Less than 1 month	₩ 50,108	₩ 699,410	₩ -	₩ -	₩ 749,518
1–3 months	-	975,094	10,011	-	985,105
3–6 months	-	979,462	165,414	-	1,144,876
6 months–1 year	9,960	639,307	300,599	45,633	995,499
1-3 years	140,122	512,494	533,820	-	1,186,436
3-5 years	80,056	-	91,042	32,290	203,388
5-10 years	-	-	-	52,150	52,150
More than 10 years	-	-	-	21,370	21,370
Total	₩ 280,246	₩ 3,805,767	₩ 1,100,886	₩ 151,443	₩ 5,338,342
HTM financial assets:					
Less than 1 month	₩ -	₩ -	₩ -	₩ 42,561	₩ 42,561
1–3 months	97,309	60,028	-	6,566	163,903
3–6 months	113,310	640,153	-	804	754,267
6 months–1 year	189,292	739,810	141,695	63,052	1,133,849
1-3 years	381,947	2,261,225	651,547	13,060	3,307,779
3-5 years	-	-	10,095	31,412	41,507
5-10 years	-	-	-	18,463	18,463
Total	₩ 781,858	₩ 3,701,216	₩ 803,337	₩ 175,918	₩ 5,462,329

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15. PLEDGED ASSETS:

Details of pledged assets among AFS financial assets and HTM investments for the purpose of deposit of securities related to repurchase agreement with other banks and maintenance of membership of future/option trade and stock exchange as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Reason for pledge	Book value			
			Dec. 31, 2012		Dec. 31, 2011
AFS Financial assets	Borrowing foreign currencies	₩	-	₩	60,114
	Security lending agreement		-		29,985
	B.O.K. Settlement		350,420		450,092
	Daylight credit		-		200,050
	Borrowing in foreign currencies (Credit Support Annex("CSA"))		29,997		44,014
	Borrowing from B.O.K.		50,006		49,984
	Margin for future trading		26,465		-
	Others		60,361		-
	Subtotal		517,249		834,239
HTM investments	Borrowing foreign currencies		961,821		903,008
	Margin for future trading		259,921		290,637
	B.O.K. Settlement		1,000,612		1,020,733
	Daylight credit		550,077		150,070
	Customer RP		921		3,982
	Borrowing in foreign currencies (CSA)		43,041		40,001
	Borrowing from B.O.K.		510,654		361,002
	Others		718		13,836
	Subtotal		3,327,765		2,783,269
Total		₩	3,845,014	₩	3,617,508

16. LOANS:

(1) Loans as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Loans to banks:				
Loans in Korean won	₩	47,598,035	₩	43,741,610
Loans in foreign currencies		9,532,941		10,059,471
Domestic import usance		2,670,833		3,430,076
Call loans		1,460,939		1,900,350
Bills bought in Korean won		86,052		401,165
Bills bought in foreign currencies		4,518,468		4,438,273
Advance payments on acceptance and guarantee		15,220		5,292
Credit card receivables		2,661,277		2,563,234
Bonds purchased under RPs		490,000		490,000
Installment receivables purchased		1,340,271		825,102
Privately placed bonds		547,695		546,559
Lease receivables		153,149		264,123
Others		18,435		19,525
Subtotal		71,093,315		68,684,780
Additions (deductions)				
Deferred LOF/LOCs		32,271		(1,308)
Allowance for possible loan losses		(771,595)		(739,185)
Total net book value	₩	70,353,991	₩	67,944,287

(2) The changes in deferred LOF/LOCs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

2012							
Beginning		Increase		Decrease		Ending	
₩	(1,308)	₩	43,477	₩	9,898	₩	32,271

2011							
Beginning		Increase		Decrease		Ending	
₩	(22,421)	₩	5,886	₩	(15,227)	₩	(1,308)

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(3) The changes in allowance for possible loan losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012							
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptance and guarantee	Bills bought in foreign currencies	Credit card receivables	Privately placed bonds	Others	Total
Beginning	₩ 477,571	₩ 149,866	₩ 2,938	₩ 5,409	₩ 67,507	₩ 5,057	₩ 30,837	₩ 739,185
Disposal of non performing loans	(59,882)	-	-	-	-	-	-	(59,882)
Bad debt	(289,295)	(63,602)	(52,648)	-	(109,904)	-	(45,096)	(560,545)
Recovery of bad debt	69,413	7,171	1,074	-	37,300	-	-	114,958
Debt-for-equity swap	(6,253)	-	-	-	-	-	-	(6,253)
Changes in exchange rate, etc.	(724)	(39,149)	-	(415)	(11)	(4)	(12)	(40,315)
Transfer to (reversal of) allowance for possible loan losses	413,423	70,606	53,237	(694)	92,054	(929)	39,234	666,931
Interest income of impaired receivables	(72,500)	(6,400)	(453)	(81)	(2,404)	(646)	-	(82,484)
Ending	₩ 531,753	₩ 118,492	₩ 4,148	₩ 4,219	₩ 84,542	₩ 3,478	₩ 24,963	₩ 771,595

Classification	Dec. 31, 2011							
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptance and guarantee	Bills bought in foreign currencies	Credit card receivables	Privately placed bonds	Others	Total
Beginning	₩ 575,973	₩ 137,575	₩ 2,194	₩ 7,449	₩ 53,697	₩ 6,079	₩ 12,722	₩ 795,689
Disposal of non performing loans	(45,619)	-	-	-	-	-	-	(45,619)
Bad debt	(489,669)	(64,740)	(37,914)	-	(75,266)	(1,489)	-	(669,078)
Recovery of bad debt	41,033	18,010	23,290	-	43,984	-	-	126,317
Debt-for-equity swap	(4,562)	-	-	-	-	-	-	(4,562)
Changes in exchange rate, etc.	(2,608)	36,213	785	(3,239)	-	(837)	5,994	36,308
Transfer to (reversal of) allowance for possible loan losses	468,633	23,458	14,884	1,202	46,681	1,716	12,123	568,697
Interest income of impaired receivables	(65,610)	(650)	(301)	(3)	(1,589)	(412)	(2)	(68,567)
Ending	₩ 477,571	₩ 149,866	₩ 2,938	₩ 5,409	₩ 67,507	₩ 5,057	₩ 30,837	₩ 739,185

(4) Financial effects related to credit risk relieved by collaterals and other credit enhancement as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012				
	Impaired loans		Non-impaired loans		
	Individual assessment	Collective assessment	Overdue	Non-overdue	Total
Guarantee	₩ 11,694	₩ 20,618	₩ 14,450	₩ 4,849,543	₩ 4,896,305
Savings	6,024	2,443	481	1,293,413	1,302,361
Property	73,925	231	-	26,200	100,356
Real estate	300,518	101,003	19,358	20,372,327	20,793,206
Securities	72,853	3,607	3,276	2,004,700	2,084,436
Others	-	-	-	7,731	7,731
Total	₩ 465,014	₩ 127,902	₩ 37,565	₩ 28,553,914	₩ 29,184,395

Classification	Dec. 31, 2011				
	Impaired loans		Non-impaired loans		
	Individual assessment	Collective assessment	Overdue	Non-overdue	Total
Guarantee	₩ 31,479	₩ 10,886	₩ 38,612	₩ 4,148,162	₩ 4,229,139
Savings	6,006	1,550	14,923	1,492,733	1,515,212
Property	3,472	-	-	32,987	36,459
Real estate	156,985	73,750	35,573	19,061,615	19,327,923
Securities	93,748	2,228	89	1,818,738	1,914,803
Others	-	-	-	11,466	11,466
Total	₩ 291,690	₩ 88,414	₩ 89,197	₩ 26,565,701	₩ 27,035,002

(5) Information related to overdue loans as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	Dec. 31, 2012					
	Household	Large companies	Small- and medium-sized companies	Public institution and others	Credit card	Total
Loans that are neither past due nor impaired	₩ 21,886,289	₩ 21,618,661	₩ 18,455,055	₩ 5,173,511	₩ 2,474,904	₩ 69,608,420
Loans that are past but not impaired	25,486	16,531	33,105	565	127,058	202,745
Loans that are impaired	93,456	551,103	535,848	42,428	59,315	1,282,150
Subtotal	22,005,231	22,186,295	19,024,008	5,216,504	2,661,277	71,093,315
Deferred LOF/LOCs	44,457	(7,891)	(4,418)	225	(102)	32,271
Allowances for possible loan losses	(43,665)	(274,800)	(328,871)	(39,716)	(84,543)	(771,595)
Total	₩ 22,006,023	₩ 21,903,604	₩ 18,690,719	₩ 5,177,013	₩ 2,576,632	₩ 70,353,991

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Classification	Dec. 31, 2011					
	Household	Large companies	Small- and medium-sized companies	Public institution and others	Credit card	Total
Loans that are neither past due nor impaired	₩ 20,256,010	₩ 19,806,409	₩ 21,157,233	₩ 3,478,379	₩ 2,430,883	₩ 67,128,914
Loans that are past but not impaired	25,611	3,000	40,586	11,965	83,765	164,927
Loans that are impaired	59,045	410,397	771,787	101,124	48,586	1,390,939
Subtotal	20,340,666	20,219,806	21,969,606	3,591,468	2,563,234	68,684,780
Deferred LOF/LOCs	20,739	(11,025)	(10,901)	(9)	(112)	(1,308)
Allowances for possible loan losses	(27,309)	(231,781)	(360,600)	(51,988)	(67,507)	(739,185)
Total	₩ 20,334,096	₩ 19,977,000	₩ 21,598,105	₩ 3,539,471	₩ 2,495,615	₩ 67,944,287

Overdue means when a transaction party is not able to pay principals and interests at the payment date of the contract. An impairment loss incurred if there is objective evidence of impairment as result of one or more events that occurred after the initial recognition asset and that event (or events) has an impact on the estimated future cash flows of the financial asset. Objective evidence the Consolidated Group defined includes overdue more than 90 days, poor credit information according to the regulation of credit information management, adjustment of receivables and payables, payment for bad loan exposure, etc.

1) Loans that are neither past due nor impaired

Internal credit rating of loans that are neither past due nor impaired as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	Dec. 31, 2012					
	Household	Large companies	Small- and medium-sized companies	Public institution and others	Credit card	Total
Rating 1	₩ 17,416,164	₩ 14,615,562	₩ 5,011,554	₩ 1,631,926	₩ 700,639	₩ 39,375,845
Rating 2	4,329,471	5,536,378	10,524,678	2,523,292	1,689,988	24,603,807
Rating 3	140,654	1,215,563	2,769,258	816,015	84,277	5,025,767
Others	-	251,158	149,565	202,278	-	603,001
Total	₩ 21,886,289	₩ 21,618,661	₩ 18,455,055	₩ 5,173,511	₩ 2,474,904	₩ 69,608,420

Classification	Dec. 31, 2011					
	Household	Large companies	Small- and medium-sized companies	Public institution and others	Credit card	Total
Rating 1	₩ 17,024,088	₩ 15,279,822	₩ 4,928,846	₩ 302,368	₩ 666,238	₩ 38,201,362
Rating 2	2,611,254	3,631,340	10,495,353	1,684,818	1,595,522	20,018,287
Rating 3	620,668	894,701	3,987,044	1,356,685	169,123	7,028,221
Others	-	546	1,745,990	134,508	-	1,881,044
Total	₩ 20,256,010	₩ 19,806,409	₩ 21,157,233	₩ 3,478,379	₩ 2,430,883	₩ 67,128,914

The Consolidated Group divides loans according to the characteristics of debtors, the details of which are described below:

Classification	Household/Credit card	Enterprise
Rating 1	Bankruptcy rate: below 0.36%	1 – 4
Rating 2	Bankruptcy rate: 0.36%–8.79%	5+ – 6
Rating 3	Bankruptcy rate: 8.79%–100%	6- – 7

2) Loans that are past due but not impaired

The Consolidated Group considers that loans, of which overdue period is less than 90 days, do not have to be impaired if there is no other credit information related to impairment. Information of overdue period of loans that are past due but not impaired is as follows (Unit: In millions):

Classification	Dec. 31, 2012											
	Household		Large companies		Small- and medium-sized companies		Public institution and others		Credit card		Total	
Less than 30 days	₩	14,025	₩	16,447	₩	18,368	₩	111	₩	109,087	₩	158,038
30–60 days		5,260		-		3,268		16		10,735		19,279
60–90 days		6,201		84		11,469		438		7,236		25,428
Total	₩	25,486	₩	16,531	₩	33,105	₩	565	₩	127,058	₩	202,745

Classification	Dec. 31, 2011											
	Household		Large companies		Small- and medium-sized companies		Public institution and others		Credit card		Total	
Less than 30 days	₩	19,515	₩	3,000	₩	19,115	₩	8,846	₩	65,466	₩	115,942
30–60 days		4,852		-		19,417		264		10,133		34,666
60–90 days		1,244		-		2,054		2,855		8,166		14,319
Total	₩	25,611	₩	3,000	₩	40,586	₩	11,965	₩	83,765	₩	164,927

3) Loans that are impaired

Details of loans that are impaired as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012											
	Household		Large companies		Small- and medium-sized companies		Public institution and others		Credit card		Total	
Individual assessment												
Book value	₩	679	₩	550,727	₩	444,470	₩	37,595	₩	-	₩	1,033,471
Allowance for possible loan losses		(89)		(162,307)		(140,318)		(12,110)		-		(314,824)
Subtotal		590		388,420		304,152		25,485		-		718,647
Collective assessment												
Book value		92,777		376		91,378		4,833		59,315		248,679
Allowance for possible loan losses		(18,458)		(169)		(28,875)		(1,177)		(46,028)		(94,707)
Subtotal		74,319		207		62,503		3,656		13,287		153,972
Total	₩	74,909	₩	388,627	₩	366,655	₩	29,141	₩	13,287	₩	872,619

Classification	Dec. 31, 2011											
	Household		Large companies		Small- and medium-sized companies		Public institution and others		Credit card		Total	
Individual assessment												
Book value	₩	4,759	₩	410,194	₩	706,250	₩	95,816	₩	-	₩	1,217,019
Allowance for possible loan losses		(965)		(146,418)		(174,576)		(48,152)		-		(370,111)
Subtotal		3,794		263,776		531,674		47,664		-		846,908
Collective assessment												
Book value		54,286		203		65,537		5,308		48,586		173,920
Allowance for possible loan losses		(13,206)		(136)		(15,459)		(1,157)		(38,629)		(68,587)
Subtotal		41,080		67		50,078		4,151		9,957		105,333
Total	₩	44,874	₩	263,843	₩	581,752	₩	51,815	₩	9,957	₩	952,241

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(6) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by industry as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification	Dec. 31, 2012				
	Industry	In Korean won	In foreign currencies	Total amount	Percentage (%)
Household		₩ 21,367,159	₩ 638,072	₩ 22,005,231	30.95
Credit card		2,659,188	2,089	2,661,277	3.74
Enterprise	Manufacturing	11,438,166	8,443,042	19,881,208	27.97
	Wholesale and retail	3,336,690	2,735,490	6,072,180	8.54
	Rental of real estate	3,906,477	705,131	4,611,608	6.49
	Financial	1,701,306	1,835,675	3,536,981	4.98
	Construction	1,968,192	394,901	2,363,093	3.32
	Transportation	1,027,675	1,217,518	2,245,193	3.16
	Electricity, gas and water supply	384,198	143,230	527,428	0.74
	Others	4,300,659	2,888,457	7,189,116	10.11
	Subtotal	28,063,363	18,363,444	46,426,807	65.31
Total		₩ 52,089,710	₩ 19,003,605	₩ 71,093,315	100.00

Classification	Dec. 31, 2011				
	Industry	In Korean won	In foreign currencies	Total amount	Percentage (%)
Household		₩ 19,726,250	₩ 614,416	₩ 20,340,666	29.61
Credit card		2,558,213	5,021	2,563,234	3.73
Enterprise	Manufacturing	10,199,885	8,744,667	18,944,552	27.58
	Wholesale and retail	2,456,332	2,429,492	4,885,824	7.11
	Rental of real estate	4,034,836	835,294	4,870,130	7.09
	Transportation	954,074	1,387,729	2,341,803	3.41
	Construction	2,131,035	185,288	2,316,323	3.37
	Others	5,732,131	6,690,117	12,422,248	18.10
	Subtotal	25,508,293	20,272,587	45,780,880	66.66
Total		₩ 47,792,756	₩ 20,892,024	₩ 68,684,780	100.00

(7) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by country as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Country	Dec. 31, 2012						
		In Korea won		In foreign currencies		Total amount	Percentage (%)
Korea	₩	50,536,544	₩	12,795,057	₩	63,331,601	89.09
USA		96,973		914,156		1,011,129	1.42
China		6,696		618,825		625,521	0.88
Japan		22,992		520,087		543,079	0.76
Germany		1,482		507,578		509,060	0.72
Panama		-		470,375		470,375	0.66
Hong Kong		2,015		426,393		428,408	0.60
Singapore		2,342		320,619		322,961	0.45
Others		1,420,666		2,430,515		3,851,181	5.42
Total	₩	52,089,710	₩	19,003,605	₩	71,093,315	100.00

Country	Dec. 31, 2011						
		In Korea won		In foreign currencies		Total amount	Percentage (%)
Korea	₩	47,534,029	₩	14,284,675	₩	61,818,704	90.00
USA		93,759		930,222		1,023,981	1.49
Canada		27,698		995,332		1,023,030	1.49
Japan		24,592		648,059		672,651	0.98
China		7,089		480,597		487,686	0.71
Others		105,589		3,553,139		3,658,728	5.33
Total	₩	47,792,756	₩	20,892,024	₩	68,684,780	100.00

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(8) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by currency as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Currency		Dec. 31, 2012
KRW	₩	52,089,710
USD		13,698,818
JPY		1,676,990
CAD		1,050,586
EUR		964,097
AUD		341,573
HKD		22,461
Others		1,249,080
Total	₩	71,093,315

Currency		Dec. 31, 2011
KRW	₩	47,792,756
USD		14,340,484
JPY		2,456,062
EUR		1,328,822
CNY		471,898
IDR		164,785
BRL		100,013
HKD		16,114
Others		2,013,846
Total	₩	68,684,780

17. STRUCTURED SECURITIES:

Structured securities as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Structured securities related to stock:				
Convertible bonds (private placement)	₩	24,705	₩	28,145
Bonds with stock warrants (private placement)		7,612		74,140
Subtotal		32,317		102,285
Structured securities related to credit risk:				
Collateralized Debt Obligation		21,491		22,422
Total	₩	53,808	₩	124,707

18. DERIVATIVES:

(1) Details of trading derivatives as of December 31, 2012 and 2011 and for years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Type	2012				
	Outstanding commitment contract amount	Gain on valuation	Loss on valuation	Assets as of December 31	Liabilities as of December 31
Currency:					
Currency forwards	₩ 40,148,304	₩ 627,882	₩ 742,214	₩ 634,582	₩ 678,862
Currency swaps	15,502,216	487,316	316,613	438,531	268,483
Currency options purchased	1,862,223	8,224	9,097	22,427	-
Currency options sold	2,147,990	11,567	17,486	-	32,230
Subtotal	59,660,733	1,134,989	1,085,410	1,095,540	979,575
Interest:					
Interest rate swaps	44,454,777	120,639	145,086	240,301	309,183
Interest rate option purchased	980,000	1,416	620	5,077	-
Interest rate option sold	1,695,000	1,459	311	-	2,566
Interest rate futures	1,174,227	-	-	-	-
Subtotal	48,304,004	123,514	146,017	245,378	311,749
Stock:					
Stock options purchased	38,538	3,350	1,717	15,380	-
Stock options sold	2,745	15	25	-	123
Stock futures	1,197	-	-	-	-
Subtotal	42,480	3,365	1,742	15,380	123
Others:					
Deferred gain on derivatives valuation	-	-	-	-	48
Credit spread	-	4,556	1	-	14,548
Bid-ask spread	-	234	-	-	2,710
Subtotal	-	4,790	1	-	17,306
Total	₩ 108,007,217	₩ 1,266,658	₩ 1,233,170	₩ 1,356,298	₩ 1,308,753

Type	2011				
	Outstanding commitment contract amount	Gain on valuation	Loss on valuation	Assets as of December 31	Liabilities as of December 31
Currency:					
Currency forwards	₩ 33,869,938	₩ 494,266	₩ 361,240	₩ 518,869	₩ 410,300
Currency swaps	10,993,561	169,117	195,242	301,665	229,649
Currency options purchased	1,247,542	2,692	13,382	29,491	-
Currency options sold	1,284,111	11,063	2,061	-	28,686
Currency futures	525,190	-	-	-	-
Subtotal	47,920,342	677,138	571,925	850,025	668,635
Interest:					
Interest rate swaps	37,662,290	137,857	173,475	210,530	273,952
Interest rate futures	361,676	-	-	-	-
Subtotal	38,023,966	137,857	173,475	210,530	273,952

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Stock:					
Stock options purchased	81,009	4,675	7,261	12,279	-
Stock options sold	63,837	456	542	-	2,486
Stock futures	3,438	-	-	-	-
Subtotal	148,284	5,131	7,803	12,279	2,486
Others:					
Deferred gain on derivatives valuation	-	-	-	-	1,000
Deferred loss on derivatives valuation	-	-	-	697	-
Credit spread	-	1,215	1	-	19,103
Bid-ask spread	-	25	-	-	2,944
Subtotal	-	1,240	1	697	23,047
Total	₩ 86,092,592	₩ 821,366	₩ 753,204	₩ 1,073,531	₩ 968,120

(2) Details of hedging derivatives as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Type	2012				
	Outstanding commitment contract amount	Gain on valuation	Loss on valuation	Assets as of December 31	Liabilities as of December 31
Interest rate:					
Interest rate swap	₩ 1,606,650	₩ 7,060	₩ 1,019	₩ 37,867	₩ -

Type	2011				
	Outstanding commitment contract amount	Gain on valuation	Loss on valuation	Assets as of December 31	Liabilities as of December 31
Interest rate:					
Interest rate swap	₩ 608,942	₩ 27,711	₩ -	₩ 32,537	₩ 897

Foreign exchange forward transaction, currency futures and currency swap, such derivative transactions related to currencies that purchase and sales occurs simultaneously contract price for purchase and sales is not differentiated. For won-to-foreign currency transactions, contract price based on foreign currency is translated at the exchange rate at the end of the reporting period. In addition, purchase price based on foreign currency is translated at exchange rate of the end of the reporting period for foreign currency-to-foreign currency transactions.

(3) Gain or loss on valuation of hedged items for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012		2011	
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation
AFS financial assets (debt securities)	₩ -	₩ -	₩ -	₩ 1,119
Finance debentures	-	11,558	-	26,482
Total	₩ -	₩ 11,558	₩ -	₩ 27,601

Hedged items applying fair value hedge accounting as of December 31, 2012, include AFS financial assets (debt securities) and issuing financing bonds, and the Consolidated Group recognized changes in fair values of hedged items due to fluctuation of interest rates in net income. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

19. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

Company	Location	No. of shares	Ownership (%)	Reporting date	Book value			
					Dec. 31, 2012		Dec. 31. 2011	
Flossom Co., Ltd.(*1)	Korea	165,000	1.92	Dec. 31, 2012	₩	-	₩	669

(*1) Included in investment in associates because the Company has significant influence by participating in the Board of Directors' meeting, decision-making organization.

(2) The changes in investments in associates for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Company	Dec. 31, 2012									
	Acquisition Cost		Jan. 1, 2012		Acquisition, disposal and others		Share of loss of associates		Dec. 31, 2012	
Flossom Co., Ltd.	₩	825	₩	669	₩	-	₩	(669)	₩	-

Company	Dec. 31, 2011									
	Acquisition Cost		Jan. 1, 2011		Acquisition, disposal and others		Share of loss of associates		Dec. 31, 2011	
Flossom Co., Ltd.	₩	825	₩	628	₩	142	₩	(101)	₩	669

(3) The summary of financial information in associates as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Company	Dec. 31, 2012									
	Assets		Liabilities		Shareholders' equity		Revenue		Net loss	
Flossom Co., Ltd.	₩	103,836	₩	113,179	₩	(9,343)	₩	3,529	₩	(30,417)

Company	Dec. 31, 2011									
	Assets		Liabilities		Shareholders' equity		Revenue		Net loss	
Flossom Co., Ltd.	₩	125,065	₩	90,277	₩	34,788	₩	41,776	₩	(10,167)

(4) The Consolidated Group does not hold investments in associates with the active market price as of December 31, 2012 and 2011.

(5) The Consolidated Group discountinued recognizing its' shares of losses in Flossom Co., Ltd. since the losses exceed the Consoliated Group's interest in Flossom Co., Ltd. The excess of losses over the Consolidated Group's interest in Flossom Co., Ltd. which are accumulated for the current year and before the current periodare as follows (Unit: In millions):

Company	Amount for the current year		Accumulated amount before the current year		Total	
Flossom Co., Ltd.	₩	(180)	₩	-	₩	(180)

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20. TANGIBLE ASSETS:

(1) Tangible assets as of December 31, 2012 and December 31, 2011 consist of (Unit: In millions):

Classification	Dec. 31, 2012					
		Acquisition cost		Accumulated depreciation		Book value
Land	₩	816,715	₩	-	₩	816,715
Buildings		461,250		(184,721)		276,529
Leasehold improvements		163,467		(127,851)		35,616
Equipment and vehicles		703,934		(609,836)		94,098
Construction in progress		3		-		3
Total	₩	2,145,369	₩	(922,408)	₩	1,222,961

Classification	Dec. 31, 2011					
		Acquisition cost		Accumulated depreciation		Book value
Land	₩	819,393	₩	-	₩	819,393
Buildings		451,017		(175,570)		275,447
Leasehold improvements		143,834		(117,956)		25,878
Equipment and vehicles		649,568		(564,222)		85,346
Construction in progress		322		-		322
Operating lease		7,398		(6,404)		994
Total	₩	2,071,532	₩	(864,152)	₩	1,207,380

(2) The changes in book value of tangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Jan. 1, 2012		Acquisition		Disposal		Depreciation		Transfer		Others		Dec. 31, 2012
Land	₩	819,393	₩	199	₩	(23)	₩	-	₩	(2,538)	₩	(316)	₩	816,715
Buildings		275,447		15,425		(28)		(11,438)		(2,170)		(707)		276,529
Leasehold improvements (*1)		25,878		18,720		(36)		(11,118)		-		2,172		35,616
Equipment and vehicles		85,346		64,459		(168)		(54,911)		-		(628)		94,098
Construction in progress		322		-		-		-		-		(319)		3
Operating lease		994		-		(142)		(852)		-		-		-
Total	₩	1,207,380	₩	98,803	₩	(397)	₩	(78,319)	₩	(4,708)	₩	202	₩	1,222,961

(*1) Increase of ₩1,054 million due to provision for restoration cost was included in the acquisition amount.

Classification		Jan. 1, 2011		Acquisition		Disposal		Depreciation		Transfer		Others		Dec. 31, 2011
Land	₩	816,953	₩	52	₩	(134)	₩	-	₩	47	₩	2,475	₩	819,393
Buildings		283,184		8,715		(130)		(10,733)		(8,819)		3,230		275,447
Leasehold improvements (*1)		27,441		9,050		-		(10,751)		-		138		25,878
Equipment and vehicles		75,690		57,587		(901)		(47,947)		-		917		85,346
Construction in progress		1,050		322		-		-		-		(1,050)		322
Operating lease		1,752		-		-		(758)		-		-		994
Total	₩	1,206,070	₩	75,726	₩	(1,165)	₩	(70,189)	₩	(8,772)	₩	5,710	₩	1,207,380

(*1) Increase of ₩142 million due to provision for restoration cost was included in the acquisition amount.

21. INVESTMENT PROPERTIES:

(1) Investment properties as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification	Dec. 31, 2012							
		Acquisition cost		Accumulated depreciation		Accumulated impairment loss		Book value
Land	₩	116,622	₩	-	₩	(2,355)	₩	114,267
Buildings		113,201		(46,768)		(2,388)		64,045
Total	₩	229,823	₩	(46,768)	₩	(4,743)	₩	178,312

Classification	Dec. 31, 2011							
		Acquisition cost		Accumulated depreciation		Accumulated impairment loss		Book value
Land	₩	114,428	₩	-	₩	(2,355)	₩	112,073
Buildings		110,352		(43,112)		(2,871)		64,369
Total	₩	224,780	₩	(43,112)	₩	(5,226)	₩	176,442

(2) The changes in book value of investment properties for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Jan. 1, 2012		Disposal		Depreciation		Transfer (*1)		Dec. 31, 2012
Land	₩	112,073	₩	(344)	₩	-	₩	2,538	₩	114,267
Buildings		64,369		-		(2,494)		2,170		64,045
Total	₩	176,442	₩	(344)	₩	(2,494)	₩	4,708	₩	178,312

(*1) Due to changes in the ratio of the leased investment properties

Classification		Jan. 1, 2011		Disposal		Depreciation		Transfer (*1)		Others		Dec. 31, 2011
Land	₩	114,476	₩	-	₩	-	₩	(47)	₩	(2,356)	₩	112,073
Buildings		60,882		-		(2,462)		8,819		(2,870)		64,369
Total	₩	175,358	₩	-	₩	(2,462)	₩	8,772	₩	(5,226)	₩	176,442

(*1) Due to changes in the ratio of the leased investment properties

(3) Fair values of investment properties are ₩155,197 million and ₩155,057 million as of December 31, 2012 and 2011, respectively. Fair values are measured based on valuation performed by independent professionals.

(4) Rental revenues from investment property for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Rental revenues	₩	3,206	₩	3,522

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(5) Investment properties not in use as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Land	₩	1,640	₩	1,873
Buildings		386		548
Total	₩	2,056	₩	2,421

22. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification	Dec. 31, 2012							
		Acquisition cost		Accumulated depreciation		Accumulated impairment loss		Book value
Development expenditures	₩	294,333	₩	(237,311)	₩	(347)	₩	56,675
Membership		21,977		-		(4,690)		17,287
Others		14,776		(5,699)		(3)		9,074
Total	₩	331,086	₩	(243,010)	₩	(5,040)	₩	83,036

Classification	Dec. 31, 2011							
		Acquisition cost		Accumulated depreciation		Accumulated impairment loss		Book value
Development expenditures	₩	279,927	₩	(214,332)	₩	(347)	₩	65,248
Membership		13,711		-		(1,809)		11,902
Others		17,602		(8,176)		-		9,426
Total	₩	311,240	₩	(222,508)	₩	(2,156)	₩	86,576

(2) The changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Jan. 1, 2012		Acquisition		Disposal		Amortization		Impairment loss		Net change in foreign currencies		Others		Dec. 31, 2012
Development expenditures	₩	65,248	₩	14,567	₩	-	₩	(23,140)	₩	-	₩	-	₩	-	₩	56,675
Membership		11,902		12		(213)		-		(2,984)		(16)		8,586		17,287
Others		9,426		1,970		-		(1,760)		-		(444)		(118)		9,074
Total	₩	86,576	₩	16,549	₩	(213)	₩	(24,900)	₩	(2,984)	₩	(460)	₩	8,468	₩	83,036

Classification		Jan. 1, 2011		Acquisition		Disposal		Amortization		Impairment loss		Net change in foreign currencies		Others		Dec. 31, 2011
Development expenditures	₩	66,037	₩	24,893	₩	-	₩	(25,682)	₩	-	₩	-	₩	-	₩	65,248
Membership		-		-		-		-		(1,806)		-		13,708		11,902
Others		8,955		1,600		-		(1,497)		-		368		-		9,426
Total	₩	74,992	₩	26,493	₩	-	₩	(27,179)	₩	(1,806)	₩	368	₩	13,708	₩	86,576

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23. OTHER ASSETS AND MERCHANT BANKING ACCOUNT ASSETS:

(1) Other assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Guarantee deposits paid	₩	649,219	₩	649,978
Accounts receivable		6,444,478		4,973,859
Accrued income		264,356		276,360
Prepaid expenses		63,094		52,989
Suspense payments		24,832		28,644
Supplies		6,613		7,072
Deposited money		11,433		9,635
Domestic exchange settlement debits		414,312		1,206,886
Other sundry assets		4,217		2,487
Allowance for possible other asset losses		(4,032)		(9,548)
Total	₩	7,878,522	₩	7,198,362

(2) Changes in allowance for possible other asset losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Beginning balance	₩	9,548	₩	51,350
Bad debts		(6,152)		(4,657)
Transfer to (reversal of) allowances for possible losses		792		(7,194)
Interest income of impaired receivables		(156)		(139)
Others		-		(29,812)
Ending balance	₩	4,032	₩	9,548

(3) Merchant banking account assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification			Dec. 31, 2012		Dec. 31, 2011
Merchant banking account loans		₩	450,000	₩	781,600
Merchant banking account trading securities			1,726,293		1,313,329
CMA Assets	Loans		232,600		10,000
	Trading securities		79,672		252,538
	Subtotal		312,272		262,538
Allowance for possible loan losses			(349)		(4,964)
Total		₩	2,488,216	₩	2,352,503

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24. NON-CURRENT ASSETS HELD FOR SALE:

As of December 31, 2012, non-current assets held for sale consist of two real estates acquired through execution of security right, which the management of the Consolidated Group committed to plan to sell, but not yet sold by December 31, 2012. As of the reporting date, one asset among non-current assets held for sale is under negotiation for sale and the remaining one is actively marketed.

Non-current assets held for sale as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Acquisition cost	₩	1,439	₩	-
Accumulated depreciation		-		-
Book value	₩	1,439	₩	-

25. FINANCIAL LIABILITIES AT FVTPL:

Financial liabilities at FVTPL as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Trading derivatives (Note 18)	₩	1,308,753	₩	968,120

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26. DEPOSITS:

(1) Deposits as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Demand deposits:				
Demand deposits in Korean won				
Checking deposits	₩	212,931	₩	300,190
Household checking account		15,493		15,968
Temporary deposits		738,617		746,407
Passbook deposits		15,459,969		14,948,074
Public fund deposits		41,569		22,287
Treasury deposits		256		364
Non-resident deposits in Korean won		268,586		223,065
Non-resident free deposits in Korean won		29,742		43,310
Subtotal		16,767,163		16,299,665
Demand deposits in foreign currencies				
Checking deposits		2,572,563		2,926,461
Passbook deposits		7,332,218		6,817,730
Temporary deposits		20,528		19,984
Subtotal		9,925,309		9,764,175
Time deposits:				
Time deposits in Korean won				
Time deposits		29,926,516		29,582,208
Apartment application deposits		158,655		185,446
Installment savings deposits		1,776,894		1,015,066
Non-resident deposits in Korean won		351,073		350,771
Non-resident free deposits in Korean won		430,835		468,486
Home mortgage deposits		314,227		347,349
Industrial savings		153		189
Import installment		99		126
Home installment		18,809		24,428
Others		36		37
Subtotal		32,977,297		31,974,106
Time deposits in foreign currency				
Time deposits		6,178,576		5,478,034
Others		654,442		887,920
Subtotal		6,833,018		6,365,954
Negotiable certificates of deposits		278,802		25,709
Total	₩	66,781,589	₩	64,429,609

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(2) Details of deposits by customer as of December 31, 2012 and 2011 are as follows (Unit: In millions)

Classification		Dec. 31, 2012		Dec. 31, 2011
Individuals	₩	20,755,889	₩	18,571,386
Enterprises		21,972,468		20,531,053
Other banks		1,080,786		2,105,136
Public institutions		504,254		672,369
Other financial institutions		7,520,685		7,080,015
Government		178,091		352,967
Nonprofit corporations		3,341,948		2,980,955
Foreign companies		7,135,013		7,092,683
Others		4,292,455		5,043,045
Total	₩	66,781,589	₩	64,429,609

27. BORROWINGS:

Borrowings as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification	Lender	Interest rate (%)		Dec. 31, 2012		Dec. 31, 2011
Borrowings in Korean won:						
Borrowings from B.O.K.	B.O.K.	1.25	₩	545,340	₩	396,010
Borrowings from Korean government	Korea Energy Management Corporation and others	0.00~4.00		927,715		457,412
Other borrowings	Small business corporation and others	1.39~3.84		385,838		438,292
	Subtotal			1,858,893		1,291,714
Borrowings in foreign currencies:						
Bank draft	JPMorgan Chase and others	1.83 ~ 15.75		175,916		209,609
Other borrowings	SMBC and others	0.20~5.81		4,603,610		6,538,449
	Subtotal			4,779,526		6,748,058
Call money:						
Call money in foreign currencies	The Export-Import Bank of Korea and others	0.29~1.10		228,709		1,176,205
Bonds sold under RPs:						
Bonds sold under repurchase agreements in Korean won	Customers	3.70~3.95		190		252
Bonds sold under repurchase agreements in foreign currencies		-		-		21,993
	Subtotal			190		22,245
Bills sold	Customers	2.00~3.78		58,387		91,993
	Total		₩	6,925,705	₩	9,330,215

28. DEBENTURES:

Debentures as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification	Lender	Interest rate (%)		Dec. 31, 2012		Dec. 31, 2011
Debentures in Korean won:						
General debentures	Institutions	2.94~4.17	₩	2,760,000	₩	2,980,000
Subordinated debentures	Institutions and customers	3.30~7.80		1,500,132		1,100,222
(Discount on bond in Korean won)				(12,593)		(10,113)
Subtotal				4,247,539		4,070,109
Debentures in foreign currencies:						
General debentures	Morgan stanely and others	0.55~4.88		1,677,900		576,650
Floating rate debentures	HSBS	0.35~2.41		177,965		791,745
Gain or loss on fair value hedge agreements in Korean won (for the years ended Dec. 31, 2012 and 2011, respectively)				11,558		26,482
Gain or loss on fair value hedge (before Dec. 31, 2011 and 2010, respectively)				70,637		762
(Discount on bond in foreign currencies)				(12,173)		(5,724)
Subtotal				1,925,887		1,389,915
Total			₩	6,173,426	₩	5,460,024

29. PROVISIONS:

(1) Provisions, including provision for unused credit limit of merchant banking account, as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Provision for acceptances and guarantees:				
Financing guarantee contract (*1)	₩	1,783	₩	20,190
Non-financing guarantee contract		33,778		19,607
Endorsed notes		763		896
Subtotal		36,324		40,693
Provision for unused credit limit (*2)		63,476		57,736
Other provisions:				
Provision for restoration cost		17,786		12,567
Provision for points and mileage		22,832		7,774
Provision for litigation (*3)		45,392		43,554
Others		56,650		79,741
Subtotal		142,660		143,636
Total	₩	242,460	₩	242,065

(*1) The Consolidated Group recognizes the amount exceeding unamortized amount of initial fair values at subsequent measurement of financing guarantee contract as provisions for guarantees. The Consolidated Group recognizes ₩40,419 million and ₩25,024 million of the unamortized amount as financing guarantee contract liabilities as of December 31, 2012 and 2011, respectively.

(*2) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

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(*3) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a damage suit against five companies, including the Company and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As of December 31, 2011, the Court ruled that $37.30 million of damages and five percent annual interest expenses of approximately $15.26 million that accrued from November 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. During the current period, LSF-KEB holdings, SCA, paid the compensation ruled by the International Court of Arbitration and sued the Company for reimbursement related to this compensation. Accordingly, the Company has credited provision for litigation with ₩35 billion, which corre sponds to approximately 50 percent of the amount that is mentioned above.

(2) The changes in provision for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012									
	Beginning balance		Transfer (reversal)		Used		Others		Ending balance	
Provision for acceptances and guarantees	₩	40,693	₩	(2,540)	₩	-	₩	(1,829)	₩	36,324
Provision for unused credit limit (*1)		57,736		6,259		-		(519)		63,476
Other provisions:										
Provision for restoration costs		12,567		3,191		(266)		2,294		17,786
Provision for credit card point and mileage		7,774		13,606		(16,615)		18,067		22,832
Provision for litigation		43,554		1,846		-		(8)		45,392
Others		79,741		(258)		(22,500)		(333)		56,650
Subtotal		143,636		18,385		(39,381)		20,020		142,660
Total	₩	242,065	₩	22,104	₩	(39,381)	₩	17,672	₩	242,460

(*1) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

Classification	2011									
	Beginning balance		Transfer (reversal)		Used		Others		Ending balance	
Provision for acceptances and guarantees	₩	50,348	₩	(9,787)	₩	-	₩	132	₩	40,693
Provision for unused credit limit (*1)		101,678		(43,746)		-		(196)		57,736
Other provisions:										
Provision for restoration costs		12,955		(545)		(88)		245		12,567
Provision for credit card point and mileage		2,452		8,169		(2,951)		104		7,774
Provision for litigation		29,889		13,674		-		(9)		43,554
Others		81,663		(10,818)		(14,400)		23,296		79,741
Subtotal		126,959		10,480		(17,439)		23,636		143,636
Total	₩	278,985	₩	(43,053)	₩	(17,439)	₩	23,572	₩	242,065

(*1) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

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(3) Payment guarantees and endorsed notes as of December 31, 2012 and 2011 are as follows (Unit: In millions)

Classification		Dec. 31, 2012		Dec. 31, 2011
Acceptances and guarantees:				
Financing guarantee contract in Korean won:				
Payment guarantee for issuance of debentures	₩	70	₩	4,528
Payment guarantee for loans		86,539		69,643
Others		25,919		3,220
Subtotal		112,528		77,391
Financing guarantee contract in foreign currencies:				
Local finance payment guarantee		619,029		540,702
Definite payment guarantee in Korean won:				
Other payment guarantees in Korean won		1,553,450		1,079,960
Others		-		10,987
Subtotal		1,553,450		1,090,947
Definite payment guarantee in foreign currencies:				
Acceptance of letters of credit		814,905		479,273
Acceptances on letters of guarantee for importers		96,408		65,774
Others		8,469,485		8,009,913
Subtotal		9,380,798		8,554,960
Unconfirmed acceptances and guarantees:				
Letters of credit		3,892,703		4,112,776
Others		33,510		151,087
Subtotal		3,926,213		4,263,863
Bills endorsed		25,733		33,283
Total	₩	15,617,751	₩	14,561,146

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(4) Acceptances and guarantees (including bills endorsed), by industry, as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Industry	Dec. 31, 2012						
		Korean won		Foreign currencies	Total		
						Amount	Ratio (%)
Manufacturing	₩	690,342	₩	6,338,953	₩	7,029,295	45.00
Construction		198,061		3,003,444		3,201,505	20.50
Wholesale and retail		379,587		1,934,302		2,313,889	14.82
Finance		1,038		1,096,489		1,097,527	7.03
Electricity, gas and water supply		4,640		500,655		505,295	3.24
Transportation		89,773		173,224		262,997	1.68
Rental of real estate		35,906		27,578		63,484	0.41
Others		369,325		774,434		1,143,759	7.32
Total	₩	1,768,672	₩	13,849,079	₩	15,617,751	100.00

Industry	Dec. 31, 2011						
		Korean won		Foreign currencies	Total		
						Amount	Ratio (%)
Manufacturing	₩	639,678	₩	6,881,826	₩	7,521,504	51.65
Construction		170,532		2,645,104		2,815,636	19.34
Wholesale and retail		231,423		1,399,161		1,630,584	11.20
Finance and insurance		1,315		968,428		969,743	6.66
Electricity, gas and water supply		2,906		566,375		569,281	3.91
Others		208,586		845,812		1,054,398	7.24
Total	₩	1,254,440	₩	13,306,706	₩	14,561,146	100.00

(5) Acceptances and guarantees (including bills endorsed), by country, as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Countries	Dec. 31, 2012						
		Korean won		Foreign currencies	Total		
						Amount	Ratio (%)
Korea	₩	1,767,710	₩	12,141,369	₩	13,909,079	89.05
USA		-		652,133		652,133	4.17
China		-		295,468		295,468	1.89
Singapore		50		156,955		157,005	1.01
Hong Kong		-		138,250		138,250	0.89
Germany		772		59,565		60,337	0.39
Japan		-		60,352		60,352	0.39
Others		140		344,987		345,127	2.21
Total	₩	1,768,672	₩	13,849,079	₩	15,617,751	100.00

Countries	Dec. 31, 2011						
		Korean won		Foreign currencies	Total		
						Amount	Ratio (%)
Korea	₩	1,251,394	₩	12,178,135	₩	13,429,529	92.23
USA		-		567,862		567,862	3.90
China		-		153,037		153,037	1.05
Singapore		50		130,322		130,372	0.90
Japan		-		67,821		67,821	0.47
Others		2,996		209,529		212,525	1.45
Total	₩	1,254,440	₩	13,306,706	₩	14,561,146	100.00

(6) Commitments

Unused credit limit as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Loan agreement in Korean won	₩	50,780,165	₩	45,931,119
Loan agreement in foreign currency		6,646,511		5,966,475
ABCP purchase agreement		581,034		485,890
ABS grant of credit agreement		1,478,216		278,000
Securities purchase agreement		-		397,723
Total	₩	59,485,926	₩	53,059,207

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30. OTHER LIABILITIES AND MERCHANT BANKING ACCOUNT LIABILITIES:

(1) Other liabilities as of December 31, 2012 and 2011 consist of (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Defined benefit obligation (see Note 31):				
Defined benefit obligation	₩	282,459	₩	223,746
Less: Plan assets		(259,586)		(182,637)
Subtotal		22,873		41,109
Due to trust accounts		1,009,696		1,080,758
Accrued payable from foreign exchange:				
Bills sold		4,061		5,697
Inward remittance payable		366,803		275,473
Subtotal		370,864		281,170
Accounts payable:				
Other accounts payable		6,347,272		4,907,490
Accounts payable (card)		286,235		120,808
Subtotal		6,633,507		5,028,298
Accrued expenses		898,907		934,837
Unearned revenue		75,992		82,763
Deferred revenue		52,836		39,811
Guarantee money received:				
Payment guarantee		86,768		107,956
Others		52,273		68,125
Subtotal		139,041		176,081
Suspense receipt		69,486		94,002
Suspense receipt (card)		11,282		20,738
Withholding taxes		28,415		38,133
Agency business accounts		92,007		52,122
Due from treasury agencies		1,803,352		893,003
Financial guarantee contract:				
Financial guarantee contract in Korean won		35,903		21,937
Financial guarantee contract in foreign currencies		4,246		3,087
Subtotal		40,149		25,024
Other sundry liabilities:				
Guarantee deposits for securities subscription		29,395		9,308
Exchange settlements credits		1,592,073		1,428,187
Prepaid card		10		10
Debit card		9,560		5,508
Cash received from other banks		400		105
Other liabilities in foreign currencies		4,010		2,483
Subtotal		1,635,448		1,445,601
Total	₩	12,883,855	₩	10,233,450

(2) Merchant banking account liabilities as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Deposits	₩	525,654	₩	747,785
Provision for unused credit limit		978		1,010
Other liabilities (*1)		2,093		4,449
Total	₩	528,725	₩	753,244

(*1) Other liabilities consist of accrued expenses, unearned income and others.

31. SEVERANCE BENEFITS:

(1) Defined retirement benefits plan

The Consolidated Group operates a defined retirement benefit plan ("DB plan") in accordance with Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Consolidated Group has purchased severance benefits insurance and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Consolidated Group pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(2) Long-term employee benefits

The Consolidated Group provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by Hewitt, an actuary services company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(3) Key actuarial assumptions

Key assumptions for actuarial valuation as of December 31, 2012 and 2011 are as follows (Unit: %):

Classification	Dec. 31, 2012	Dec. 31, 2011	Notes
Discount rate	3.55–4.30	4.00–5.10	Rate of return on Bank AAA bonds
Expected return on plan assets	3.40–3.78	3.80–4.60	Rate of return on government and public bonds with 10-year maturity
Expected rate of salary increase	2.25–4.90	2.50–5.60	Average rate for the past five years

(4) The details of defined benefit obligation as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Present value of defined benefit obligation from a plan in which funds are accumulated	₩	267,894	₩	210,029
Fair value of plan assets		(259,586)		(182,637)
Subtotal		8,308		27,392
Present value of defined benefit obligation from a plan in which funds are not accumulated		14,565		13,717
Defined benefit obligation	₩	22,873	₩	41,109

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(5) The changes in present value of defined benefit obligation for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Beginning balance	₩	223,746	₩	386,003
Current service cost		47,411		48,396
Interest cost		9,075		18,068
Actuarial gain		9,370		(143)
Payment of severance benefits		(40,432)		(211,066)
Past service cost		34,574		(9,654)
Accounts payable		-		(419)
Changes due to transfer between a parent and its subsidiaries		104		-
Others		(1,389)		(7,439)
Ending balance	₩	282,459	₩	223,746

(6) The expenses in connection with severance benefits for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Current service cost	₩	47,411	₩	48,396
Interest cost		9,075		18,068
Expected return on plan assets		(6,747)		(11,589)
Actuarial loss		7,612		1,448
Past service cost		34,574		(9,654)
Total	₩	91,925	₩	46,669

(7) The portfolio of plan assets as of December 31, 2012 is as follows (Unit: In millions):

Classification		Dec. 31, 2012
Time deposits	₩	86,316
Bonds		78,456
Others		94,814
Total	₩	259,586

(8) The changes in fair value of plan assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Beginning balance	₩	182,637	₩	301,252
Expected return on plan assets		6,747		11,589
Actuarial gain (loss)		1,758		(1,591)
Contribution by employer		75,136		14,185
Payment		(6,758)		(139,211)
Others		66		(3,587)
Ending balance	₩	259,586	₩	182,637

32. CAPITAL STOCK AND OTHER PAID-IN CAPITAL:

(1) Capital stock as of December 31, 2012 and 2011 is as follows (Unit: In millions, share):

Classification		Dec. 31, 2012		Dec. 31, 2011
Shares authorized		1,000,000,000		1,000,000,000
Par value (In Korean won)	₩	5,000	₩	5,000
Shares issued		644,906,826		644,906,826
Common stock	₩	3,224,534	₩	3,224,534

(2) Other paid-in capital as of December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Capital surplus (*1)	₩	940	₩	940
Hybrid securities (*2)		249,772		249,772
Stock options		40		-
Total	₩	250,752	₩	250,712

(*1) The amount of capital surplus as of December 31, 2012 and 2011 is transferred from stock option balance (accounted for as capital adjustment) since it is lapsed and not exercised.
(*2) Korea Exchange Bank Hybrid securities issued by the Company are qualified as equity since the maturity bonds can be extended under the same terms after expiration.

33. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Legal reserve (*1)	₩	725,100	₩	562,800
Voluntary reserve:				
Revaluation reserves on tangible assets (*2)		431,936		432,008
Other reserves (*3)		78,498		52,585
Reserve for credit losses (*4)		680,621		-
Subtotal		1,191,055		484,593
Unappropriated retained earnings		3,528,137		3,756,278
Total	₩	5,444,292	₩	4,803,671

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.
(*2) The Company records gains from revaluation of property, plant, and equipment to the voluntary reserve, as it applies revaluation amount as a deemed cost at the first-time application of K-IFRS. Such reserve is brought in distributable retained earnings when relevant property, plant, and equipment are disposed.
(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income tax as a legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Company accumulate allowances for possible loan losses in accordance with K-IFRS and reserve for possible loan losses as much as the amount below the provision of allowances according to minimum accumulation ratio required by Financial Supervisory Service.

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(2) The changes in appropriated retained earnings for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Beginning balance	₩	4,803,671	₩	4,689,156
Net income of owners		658,871		1,654,745
Dividends		-		(1,521,980)
Dividends on hybrid securities		(18,250)		(18,250)
Ending balance	₩	5,444,292	₩	4,803,671

34. RESERVE FOR CREDIT LOSSES:

The reserve for credit losses is computed and presented under the articles 29-1 and 29-2 of the regulation on Supervision of Banking business of the Republic of Korea.

(1) Reserve for credit losses as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Previously reserved amount	₩	680,621	₩	-
Expected reserve amount		56,701		680,621
Remaining balance	₩	737,322	₩	680,621

(2) Transfer to reserve for credit losses and adjusted income after reserve for credit losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions, except per share amounts):

Classification		2012		2011
Net income of owners	₩	658,871	₩	1,654,745
Transfer to reserve for possible losses on credits		(56,701)		(164,809)
Adjusted net income after reserve for possible losses on credits		602,170		1,489,936
Adjusted basic earnings per share after reserve for possible losses on credits (*1) (in Korean won)		905		2,282
Adjusted diluted earnings per share after reserve for possible losses on credits (*1) (in Korean won)		905		2,278

(*1) Adjusted basic and diluted earnings per share after reserve for credit losses for the years ended December 31, 2012 and 2011 are computed by deducting dividends on hybrid securities from the adjusted net income after reserve for credit losses by ₩18,250 million and ₩18,250, respectively (see Note 45).

35. ACCUMULATED OTHER COMPREHENSIVE INCOME:

The changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012				
	Gain or loss on change in fair value of AFS financial assets	Change of share of other comprehensive loss of associates	Gain or loss on overseas business translation	Gain or loss on foreign exchange in non-monetary AFS financial assets	Total
Jan. 1, 2012	₩ 311,378	₩ (10)	₩ 43,935	₩ (19)	₩ 355,284
Increase in gain or loss on change in fair value of AFS financial assets	64,183	-	-	-	64,183
Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal, etc.)	(178,076)	-	-	-	(178,076)
Change of share of other comprehensive loss of associates	-	10	-	-	10
Decrease of gain or loss on overseas business translation	-	-	(108,646)	-	(108,646)
Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets	-	-	-	(89)	(89)
Income tax effects	27,543	-	-	21	27,564
Dec. 31, 2012	₩ 225,028	₩ -	₩ (64,711)	₩ (87)	₩ 160,230

Classification	2011				
	Gain or loss on change in fair value of AFS financial assets	Change of share of other comprehensive loss of associates	Gain or loss on overseas business translation	Gain or loss on foreign exchange in non-monetary AFS financial assets	Total
Jan. 1, 2011	₩ 786,795	₩ (10)	₩ 16,796	₩ -	₩ 803,581
Decrease in gain or loss on change in fair value of AFS financial assets	(7,315)	-	-	-	(7,315)
Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal, etc.)	(591,536)	-	-	-	(591,536)
Increase of gain or loss on overseas business translation	-	-	27,527	-	27,527
Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets	-	-	-	(25)	(25)
Income tax effects	123,434	-	(388)	6	123,052
Dec. 31, 2011	₩ 311,378	₩ (10)	₩ 43,935	₩ (19)	₩ 355,284

36. CAPITAL MANAGEMENT:

The Consolidated Group computes capital ratio required by the Bank for International Settlements ("BIS") and manages the ratio to be maintained at least 8% or above. The Consolidated Group meets the externally assigned capital maintenance requirement (the "BIS capital ratio") as of December 31, 2012 .

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholders' equity is computed by subtracting deductible items from the sum of basic capital and supplementary capital. Risk-weighted assets are sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Basic capital is composed of capital stock, additional paid-in capital, retained earnings, hybrid securities satisfied with basic capital requirements,

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and differences in foreign currencies from other accumulated comprehensive income. Supplementary capital is composed of revaluation reserve satisfied with supplementary capital requirements, gains on valuation of AFS financial assets and share of other comprehensive income of associates, high-ranked subordinated debts with more than 10-year maturity or low-ranked subordinated debts with less than five-year maturity, etc.
Items deducted from capital stock include considerable amount of intangible assets and deferred tax assets, discount on capital stock, losses on valuation of AFS financial assets and share of other comprehensive loss of associates, and treasury stock account. Other deductible items are subtracted from basic and supplementary capital by 50% each. Additionally, the Consolidated Group classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

37. INTEREST REVENUES AND INTEREST EXPENSES:

(1) The interest revenues and interest expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification				2012		2011
Interest revenue:						
Due from banks	Banks		₩	53,504	₩	35,039
	Other financial institutions			53,706		49,307
		Subtotal		107,210		84,346
Loans	Banks			58,011		81,072
	Customers			3,808,740		3,820,167
		Subtotal		3,866,751		3,901,239
Financial assets at FVTPL				4,011		3,363
AFS financial assets				205,971		171,335
HTM investments				207,177		216,600
	Total			4,391,120		4,376,883
Interest expenses:						
Deposits	Financial institutions			1,702		1
	Customers			1,502,892		1,429,834
		Subtotal		1,504,594		1,429,835
Debentures				243,145		240,096
Borrowings				128,498		109,160
Others				48,906		47,903
	Total			1,925,143		1,826,994
Net interest income			₩	2,465,977	₩	2,549,889

(2) Interest income of impaired financial assets for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification			2012		2011
Loans		₩	82,484	₩	68,567
Other assets			156		139
	Total	₩	82,640	₩	68,706

38. COMMISSION REVENUES AND COMMISSION EXPENSES:

Commission revenues and commission expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Commission revenue:				
Receiving credits	₩	12,716	₩	14,347
Giving credits		33,313		22,594
Foreign exchange		201,420		208,685
Credit card		89,846		76,043
Asset management		8,337		11,051
Agency business		42,929		24,688
Guarantee service		67,275		71,926
Others		65,459		84,136
Total		521,295		513,470
Commission expenses:				
Giving credits		2,870		1,685
Foreign exchange		40,723		37,694
Agency business		514		476
Credit card		274,679		201,811
Others		23,879		24,306
Total		342,665		265,972
Net commission income	₩	178,630	₩	247,498

39. NET INCOME FROM FINANCIAL INVESTMENTS:

Net income from financial investments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification			2012		2011
Financial instruments at FVTPL:					
Gains	Gain on valuation of trading securities	₩	603	₩	754
	Gain on disposal of trading securities		12,891		18,536
	Gain on valuation of trading bonds		3		298
	Gain on disposal of trading bonds		2,176		2,302
	Gain on valuation of trading derivatives		1,266,658		821,366
	Gain on trading of trading derivatives		2,288,253		2,976,619
	Subtotal		3,570,584		3,819,875
Losses	Loss on valuation of trading securities		223		335
	Loss on disposal of trading securities		13,417		31,003
	Loss on valuation of trading bonds		1		64
	Loss on disposal of trading bonds		1,918		1,518
	Loss on valuation of trading derivatives		1,233,170		753,204
	Loss on trading of trading derivatives		2,330,836		2,976,320
	Subtotal		3,579,565		3,762,444
Net income (loss) of financial instruments at FVTPL		₩	(8,981)	₩	57,431

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Classification			2012		2011
Hedging derivatives:					
Gains	Gain on valuation of hedging derivatives	₩	7,060	₩	27,711
	Gain on trading of hedging derivatives		821		712
	Subtotal		7,881		28,423
Losses	Loss on valuation of hedging derivatives		12,577		27,601
	Loss on trading of hedging derivatives		210		-
	Subtotal		12,787		27,601
Net income (loss) of hedging derivatives		₩	(4,906)	₩	822
AFS financial assets					
Gains	Gain on disposal of AFS equity securities	₩	196,860	₩	1,182,283
	Gain on disposal of AFS debt securities		50,186		8,981
	Subtotal		247,046		1,191,264
Losses	Loss on disposal of AFS equity securities		40		815
	Loss on disposal of AFS debt securities		-		112
	Subtotal		40		927
Net income of AFS financial assets		₩	247,006	₩	1,190,337

40. IMPAIRMENT LOSSES:

Impairment losses related to financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification			2012		2011
Transfer to allowance for possible losses (*1)		₩	667,723	₩	561,503
AFS financial assets	Impairment losses		17,522		12,012
	Reversal of impairment losses		(1,386)		(1,679)
	Subtotal		16,136		10,333
	Total	₩	683,859	₩	571,836

(*1) Includes allowance for possible losses on loans and other assets.

41. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Salaries	₩	676,409	₩	614,318
Retirement allowances		91,925		46,669
Expenses for fringe benefits		226,399		295,810
Rental		131,015		121,999
Entertainment expense		12,300		13,879
Depreciation on tangible assets		78,319		70,189
Depreciation on investment property		2,494		2,462
Amortization		24,900		27,179
Taxes		44,240		44,981
Advertising		42,193		31,139
Others		242,770		221,934
	₩	1,572,964	₩	1,490,559

42. OTHER OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification			2012		2011
Dividend income	Financial assets at FVTPL	₩	323	₩	7,647
	AFS financial assets		11,911		47,670
	Subtotal		12,234		55,317
Reversal of provision for acceptances and guarantees			2,540		9,787
Reversal of provision for unused credit limit			-		43,404
Other revenue from financial instruments			387		197
Gain on foreign exchange transaction			1,066,625		1,179,494
Gain on foreign exchange difference			170,566		56,578
Gain on operating trust account			41,976		36,731
Point revenues			27,191		20,762
Gain on sales of loans			1,515		18,134
Revenue on merchant banking accounts (*1)			68,201		65,871
Others			157		138
Total		₩	1,391,392	₩	1,486,413

(*1) Details of revenues on merchant banking accounts are as follows (Unit: In millions):

Classification		2012		2011
Interest revenues	₩	28,094	₩	35,494
Commission revenues		741		842
Gain on disposal of trading bonds		1,408		1,867
Gain on valuation of trading bonds		23		66
Gain on valuation of CMA securities		1		9
Gain on disposal of bills		33,288		27,251
Reversal of allowance for possible loan losses		4,614		-
Reversal of provision for unused credit limit		32		342
Total	₩	68,201	₩	65,871

(2) Other operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Transfer to provisions for unused credit limit	₩	6,291	₩	-
Transfer to other provisions		18,385		10,480
Other expenses from financial instruments		669		814
Loss on foreign exchange transactions		730,577		910,939
Loss on foreign exchange difference		56,631		73,907
Point expenses		31,870		24,741
Contribution for credit guarantee fund		99,233		96,417
Insurance expense for deposits		99,701		91,160
Loss on sales of loans		23,301		68,664
Expenses on merchant banking accounts (*1)		42,528		52,028
Total	₩	1,109,186	₩	1,329,150

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(*1) Details of expenses on merchant banking accounts are as follows (Unit: In millions):

Classification		2012		2011
Interest expenses	₩	42,437	₩	47,480
Transfer to allowance for possible loan losses		-		4,521
Loss on valuation of trading bonds		55		-
Loss on valuation of CMA securities		5		-
Others		31		27
Total	₩	42,528	₩	52,028

43. NON-OPERATING REVENUES AND EXPENSES:

(1) Non-operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Gain on disposal of tangible assets	₩	37	₩	243
Gain on disposal of investment property		38		-
Rental revenues		3,206		3,522
Gain on disposal of investment in associates		-		142
Others		63,248		64,533
Total	₩	66,529	₩	68,440

(2) Non-operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Loss on disposal of tangible assets	₩	298	₩	28
Loss on disposal of investment property		111		-
Impairment losses on intangible assets		2,984		1,806
Donations		19,872		18,584
Others		26,402		29,769
Total	₩	49,667	₩	50,187

44. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2012 and 2011 are summarized as follows (Unit: In millions):

Classification		2012		2011
The Company:				
Income tax currently payable	₩	222,029	₩	531,057
Change in deferred tax due to temporary differences		(22,432)		(188,795)
Total income tax effect		199,597		342,262
Income tax directly charged to shareholders' equity		27,372		124,440
Income tax expense in overseas branch		10,330		15,443
Income tax expense		237,299		482,145
Subsidiaries:				
Income tax currently payable		21,197		22,865
Change in deferred tax due to temporary differences		2,429		958
Income tax directly charged to shareholders' equity		194		(1,535)
Income tax expense		23,820		22,288
Total	₩	261,119	₩	504,433

A reconciliation of income before income tax and income tax expense for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

Classification		2012		2011
Income before income tax	₩	863,089	₩	2,104,256
Burden of taxation (by applicable tax rate of 24.2%)		208,405		509,204
Reconciliation items:				
Non-taxable income		(7,027)		(127,769)
Non-deductible expenses		4,563		171,854
Tax credits		(7,936)		(11,871)
Addition (refund) of income tax		25,026		(15,775)
Income tax expense in overseas branches		10,330		15,443
Difference due to tax rate change		-		(2,189)
Others (*1)		3,938		(56,752)
Sum of reconciliation items		28,894		(27,059)
Income tax expense	₩	237,299	₩	482,145
Effective tax rate		27.49%		22.91%

(*1) Includes ₩2,227 million of difference caused by the difference between Korean GAAP and K-IFRS related to the reversal of impairment losses on equity security.

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(2) Deferred income tax assets in the consolidated financial statements as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
KEBC	₩	16,586	₩	9,678
KEBIS		154		92
NYFinCo		4,459		6,346
USAI		11		8
LAFinCo		3,907		7,389
KEBA		2,424		4,620
KEBI		-		456
KEBB		551		-
KEBOC		(281)		-
Total	₩	27,811	₩	28,589

(3) Deferred income tax liabilities in the consolidated financial statements as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
KEB (*1)	₩	29,231	₩	51,663
KEBF		2,413		2,322
KEBOC		1,266		1,329
KEBB		2,223		-
KEBChina		64		1,139
KEBIS		482		6
Total	₩	35,679	₩	56,459

(*1) Deferred income tax assets (liabilities) of the Company as of December 31, 2012 and changes to them for the year ended December 31, 2012 are as follows (Unit: In millions):

Classification	Deductible (taxable) temporary differences				Deferred income tax assets (liabilities) (*2)			
	Jan. 1, 2012 (*1)	Decrease	Increase	Dec. 31, 2012	Jan. 1, 2012	Decrease	Increase	Dec. 31, 2012
DEDUCTIBLE TEMPORARY DIFFERENCES								
Gains or losses on valuation of financial assets	₩ (54,770)	₩ 187,721	₩ 190,841	₩ (51,650)	₩ (13,254)	₩ 45,429	₩ 46,184	₩ (12,499)
Accrued income	(64,192)	(64,192)	(66,362)	(66,362)	(15,534)	(15,534)	(16,059)	(16,059)
Other provisions and others	223,100	223,100	220,907	220,907	57,032	57,032	53,460	53,460
Gains or losses related to derivatives	(142,365)	(142,365)	(90,240)	(90,240)	(34,452)	(34,452)	(21,838)	(21,838)
Debt-for-equity swap securities	148,133	62,088	5,802	91,847	38,371	15,024	(1,120)	22,227
Advance depreciation provisions	(62,466)	-	-	(62,466)	(15,117)	-	-	(15,117)
Investment in kind at KEBChina	137,879	-	-	137,879	33,367	-	-	33,367
Financial guarantee contract	25,024	-	-	25,024	6,056	-	-	6,056
Deferred point revenue	39,811	39,811	52,836	52,836	9,634	9,634	12,786	12,786
Accrued expenses	126,065	126,065	79,145	79,145	17,588	17,588	19,153	19,153

Gain on revaluation of tangible assets	(553,885)	(120)	-	(553,765)	(134,040)	(29)	-	(134,011)
Transfer of reversal of impairment loss on equity securities to OCI	18,659	9,203	-	9,456	4,515	2,227	-	2,288
Transfer of debt-for-equity swap receivables to OCI	5,352	-	-	5,352	1,295	-	-	1,295
Others	378,006	117,826	104,236	364,416	88,776	28,514	27,927	88,189
Subtotal	224,351	559,137	497,165	162,379	44,237	125,433	120,493	39,297
ACCUMULATED OTHER COMPREHENSIVE INCOME								
AFS financial assets reserve	396,304	396,304	283,283	283,283	(95,906)	(95,906)	(68,555)	(68,555)
Gain or loss on translation of AFS financial assets	(25)	(25)	(114)	(114)	6	6	27	27
Subtotal	396,279	396,279	283,169	283,169	(95,900)	(95,900)	(68,528)	(68,528)
Total	₩ 620,630	₩ 955,416	₩ 780,334	₩ 445,548	₩ (51,663)	₩ 29,533	₩ 51,965	₩ (29,231)

(*1) Beginning balance is after adjustment of the difference in reserved amount of ₩41,399 million at the time of final tax return as of December 31, 2011. Such adjustments increase deferred tax assets by ₩10,018 million compared to the amount of December 31, 2011.

(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2 percent).

(4) The effective tax rates, calculated by dividing income tax expense by net income before taxes, for the years ended December 31, 2012 and 2011 are 28.38 percent and 23.36 percent, respectively.

45. EARNINGS PER SHARE:

(1) Weighted-average number of common shares

The weighted-average number of common shares for the years ended December 31, 2012 and 2011 are as follows:

Classification	Fixed date	Number of shares	Negotiable period	Accumulated shares	Weighted-average number of common shares
2012	2012.12.31	644,906,823	366 days	236,035,897,218	644,906,823
2011	2011.12.31	644,906,823	365 days	235,390,990,395	644,906,823

(2) Basic earnings per share

The basic net income per share for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions, except per share amounts):

Classification	2012	2011
Net income of owners	₩ 658,871	₩ 1,654,745
Dividends on hybrid securities	(18,250)	(18,250)
Net income to calculate basic net income per share	640,621	1,636,495
Weighted-average number of common shares	644,906,823	644,906,823
Basic earnings per share (in Korean won)	₩ 993	₩ 2,538

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(3) Diluted earnings per share

The diluted net income per share for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions, except per share amounts):

Classification		2012		2011
Net income to calculate basic net income per share	₩	640,621	₩	1,636,495
Recognized revenue related to employee stock options (after-tax effect of 24.2%)		(257)		(2,244)
Net income to calculate diluted net income per share		640,364		1,634,251
Weighted-average number of common shares		644,987,439		645,159,672
Diluted earnings per share (in Korean won)	₩	993	₩	2,533

In calculating diluted earnings per share, the assumed proceeds from the potential ordinary shares shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration. The ordinary shares for no consideration generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share. Dilutive potential ordinary shares the Consolidated Group owns are employee stock options.

46. SHARE-BASED PAYMENT:

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive ("Rose Bonus" and/or "Rose Share") to employees for the purpose of motivation to improve long-term performance. The Rose Bonus and/or Rose Share is settled in cash. It can be exercised from one to three years after the grant date for the following three to four years.

(1) Details of the stock options as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Assumptions for evaluation of the stock options

The stock options are measured at fair values applying Black-Scholes Model

Grant date	Exercise period	Risk-free rate (%)	Expected service period	Volatility of the underlying stock price (%)	Expected dividend	Stock price at grant date	Fair value
Mar. 11, 2008 (*1)	Mar. 12, 2010–Mar. 11, 2013	-	-	-	-	12,400	-
Aug. 1, 2008 (*1)	Aug. 2, 2010–Aug. 1, 2013	-	-	-	-	13,050	-
Mar. 12, 2009	Mar. 13, 2011–Mar. 12, 2016	2.75%	5.87	29.55%	1,035	5,700	1,287
Aug. 4, 2009	Aug. 5, 2011–Aug. 4, 2016	2.78%	5.87	28.38%	1,035	11,700	166
Mar. 10, 2010	Mar. 11, 2012–Mar. 10, 2017	2.82%	5.87	28.55%	1,035	13,450	91
Mar. 30, 2010	Mar. 31, 2012 – Mar. 30, 2017	2.83%	5.87	29.24%	1,035	13,600	94
Aug. 4, 2010	Aug. 5, 2013–Aug. 4, 2017	2.85%	5.87	29.83%	1,035	12,300	154

Sep. 29, 2010	Sep. 30, 2013– Sep. 29, 2017	2.87%	5.87	30.40%	1,035	13,550	128
Aug. 10, 2011	Aug. 11, 2014– Aug. 10, 2018	2.93%	5.87	43.45%	1,035	8,060	906
Aug. 26, 2011	Aug. 27, 2014– Aug. 26, 2018	2.93%	5.87	43.27%	1,035	7,720	980
Sep. 2, 2011	Sep. 3, 2014– Sep. 2, 2018	2.94%	5.87	43.17%	1,035	7,930	990

(*1) Since it is impossible to estimate its fair value with Black-Scholes Model due to excess of expected maturity, it is measured with intrinsic value.

2) Changes in shares of stock options

Grant date	Shares at beginning	Exercise	Divestiture	Extinction at maturity	Shares at ending	Stock option outstanding	Exercise price
Mar. 8, 2007	546,100	-	-	(546,100)	-	-	₩ 13,900
Mar. 29, 2007	289,610	-	-	(289,610)	-	-	14,500
Aug. 10, 2007	204,010	-	-	(204,010)	-	-	13,900
Mar. 11, 2008	209,870	-	-	-	209,870	209,870	13,000
Aug. 1, 2008	74,510	-	-	-	74,510	74,510	13,500
Mar. 12, 2009	298,825	(14,500)	-	-	284,325	284,325	5,800
Mar. 31, 2009	825,000	(742,500)	(82,500)	-	-	-	7,300
Aug. 4, 2009	415,610	-	-	-	415,610	415,610	10,900
Mar. 10, 2010	326,330	-	(13,980)	-	312,350	312,350	13,200
Mar. 30, 2010	262,250	-	(25,110)	-	237,140	237,140	13,500
Aug. 4, 2010	300,200	-	(48,310)	-	251,890	251,890	12,400
Sep. 29, 2010	17,810	-	-	-	17,810	17,810	13,500
Aug. 10, 2011	550,000	-	(217,000)	-	333,000	333,000	9,100
Aug. 26, 2011	100,000	-	(57,710)	-	42,290	42,290	8,500
Sep. 2, 2011	30,000	-	(18,750)	-	11,250	11,250	8,400
Total	4,450,125	(757,000)	(463,360)	(1,039,720)	2,190,045	2,190,045	

3) Weighted-average stock price as of stock option date exercised for the year ended December 31, 2012 amounts to ₩8,076.

4) Weighted-average residual expiration of exercisable stock option as of December 31, 2012, is 3.75 years.

(2) Details of the equity-linked special incentive as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Details of the equity-linked special incentive

The equity-linked special incentive is measured at fair values applying Binomial Model.
It can be exercised from one to three years after the grant date for the following three to four years.

Classification	Grant date	Exercise period	Payment date	Stock option outstanding (shares)
Rose 3	Dec. 12, 2007	Dec. 12, 2009–Dec. 11, 2012	Dec. 12, 2009	9,850
Rose 4	Dec. 11, 2009	Dec. 11, 2011–Dec. 10, 2014	Dec. 11, 2011	48,860
Rose 5	Aug. 4, 2010	Aug. 4, 2012–Aug. 3, 2015	Aug. 4, 2012	200,010
Rose 6	Sep. 21, 2011	Sep. 21, 2013–Sep. 20, 2016	Sep. 21, 2013	4,526,040
Rose Share 1-1	Feb. 19, 2010	Feb. 19, 2011–Feb. 18, 2015	Feb. 19, 2011	-
Rose Share 1-2	Feb. 19, 2010	Feb. 19, 2012–Feb. 18, 2015	Feb. 19, 2012	18,365
Rose Share 2-1	Mar. 19, 2010	Mar. 19, 2011–Mar. 18, 2015	Mar. 19, 2011	-

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Rose Share 2-2	Mar. 19, 2010	Mar. 19, 2012–Mar. 18, 2015	Mar. 19, 2012	1,560
Rose Share 3-1	Aug. 11, 2010	Aug. 11, 2011–Aug. 10, 2015	Aug. 11, 2011	6,550
Rose Share 3-2	Aug. 11, 2010	Aug. 11, 2012–Aug. 10, 2015	Aug. 11, 2012	6,875
Rose Share 4-1	Feb. 21, 2011	Feb. 21, 2012–Feb. 20, 2015	Feb. 21, 2012	11,620
Rose Share 4-2	Feb. 21, 2011	Feb. 21, 2013–Feb. 20, 2016	Feb. 21, 2013	23,860
Rose Share 5-1	Feb. 21, 2011	Feb. 21, 2012–Feb. 20, 2015	Feb. 21, 2012	15,000
Rose Share 5-2	Feb. 21, 2011	Feb. 21, 2013–Feb. 20, 2016	Feb. 21, 2013	23,425
Rose Share 6-1	Mar. 21, 2011	Mar. 20, 2012–Mar. 19, 2015	Mar. 20, 2012	523
Rose Share 6-2	Mar. 21, 2011	Mar. 20, 2013–Mar. 19, 2016	Mar. 20, 2013	1,465
Rose Share 6-3	Mar. 21, 2011	Mar. 20, 2014–Mar. 19, 2017	Mar. 20, 2014	1,470
Rose Share 7-1	Sep. 8, 2011	Sep. 8, 2012–Sep. 8, 2015	Sep. 8, 2012	1,770
Rose Share 7-2	Sep. 8, 2011	Sep. 8, 2013–Sep. 7, 2016	Sep. 8, 2013	1,770
Rose Share 8-1	Feb. 21, 2012	Feb. 22, 2013–Feb. 21, 2017	Feb. 22, 2013	21,635
Rose Share 8-2	Feb. 21, 2012	Feb. 22, 2014–Feb. 21, 2017	Feb. 22, 2014	21,635
Rose Share 9-1	Feb. 21, 2012	Feb. 22, 2013–Feb. 21, 2017	Feb. 22, 2013	42,225
Rose Share 9-2	Feb. 21, 2012	Feb. 22, 2014–Feb. 21, 2017	Feb. 22, 2014	42,225

2) Changes in shares of equity-linked special incentive

Classification	2012	2011
Beginning	7,054,210	2,485,340
Number of given shares	127,720	4,850,400
Number of loss of right	(109,896)	(126,388)
Number of exercise	(2,045,301)	(155,142)
Ending	5,026,733	7,054,210

3) Weighted-average stock price of equity-linked special incentive at exercise date for years ended December 31, 2012, amounts to ₩7,834.

4) Weighted-average residual maturity of equity linked special incentive as of December 31, 2012 is 3.64 years.

(3) Hana Financial Group provided the Company's employees with stock rights and stock grant linked to performance and computed compensation costs are computed by applying fair value approach for such rights. Details of share-based payment arrangement and share-based payment linked to performance are as follows:

Classification	1st	2nd
Grant date	Jan. 1, 2011	Jan. 1, 2012
Grant method	Hana Financial Group has the option to settle either through treasury stock or through payment of cash equivalents	
Grant period	Jan. 1, 2011– Dec. 31, 2013	Jan. 1, 2012– Dec. 31, 2014
Payment date	Dec. 31, 2013	Dec. 31, 2014
Shares at settlement date (*1)	1,340	12,430

(*1) Payable shares are determined at the initial agreement and payment ratio is decided according to the degree of performance of predecided object. Performance is evaluated by 40% of performance of Group (relative shareholders' rate of return) and 60% of performance of business segments (Return On Equity or Return On Invested Capital)

(4) Details of book value of liabilities related to share-based payment and total intrinsic value of rights accounted as payables in case that option holders achieve rights to receive cash or other assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Book value of liabilities related to share-based payment:				
Stock options	₩	772	₩	3,876
Equity-linked special incentive (granted by the Company)		41,707		36,938
Equity-linked special incentive (granted by Hana Financial Group)		452		-
Total	₩	42,931	₩	40,814

(5) Compensation costs recognized due to share-based payment

The compensation costs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Costs recognized due to share-based payment:				
Stock options	₩	(2,453)	₩	(4,533)
Equity-linked special incentive (granted by the Company)		33,350		22,086
Equity-linked special incentive (granted by Hana Financial Group)		492		-
Total	₩	31,389	₩	17,553

47. STATEMENTS OF CASH FLOWS:

(1) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash and due from banks (excluding restricted due from banks) in the consolidated statement of financial position. Cash and cash equivalents as of December 31, 2012 and 2011 are adjusted as follows (Unit: In millions):

Classification		Dec. 31, 2012		Dec. 31, 2011
Cash and due from banks	₩	8,093,842	₩	8,397,528
Less: restricted due from banks (Note 10)		(3,768,938)		(4,809,674)
Cash and cash equivalents	₩	4,324,904	₩	3,587,854

(2) Non-cash transactions for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Gain or loss on change in fair value of AFS financial assets	₩	64,183	₩	52,903
Replace tangible asset with investment property		4,708		8,772
Replace loans with non-current assets held for sale		1,439		-
Replace loans with AFS financial assets by the debt-for-equity swap		23,929		3,692

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48. RELATED-PARTY TRANSACTIONS:

(1) Details of related-party transactions of the Company are as follows:

Subsidiaries	Relationship
Hana Financial Group	Controlling company
KEBC	Subsidiary
KEBF	Subsidiary
KEBIS	Subsidiary
KEBOC	Subsidiary
KEBA	Subsidiary
KEBDAG	Subsidiary
KEBI	Subsidiary
KEBB	Subsidiary
NYFinCo	Subsidiary
LAFinCo	Subsidiary
USAI	Subsidiary
KAF	Subsidiary
KEBChina	Subsidiary
Hana Daetoo Securities Co., Ltd.	Entity under common control
Hana Bank	Entity under common control
Hana Capital Co., Ltd.	Entity under common control
Hana Institute of Finance	Entity under common control
HanaSK Card Co., Ltd.	Entity under common control
Hana I&S	Entity under common control
Flossom Co., Ltd.	Investments in associate

(2) Significant receivables and payables with related parties as of December 31, 2012 are summarized as follows (Unit: In millions):

Classification	Dec. 31, 2012			
	Controlling company	Entities under common control	Investments in associate	Total
Assets:				
Financial assets at FVTPL	₩ -	₩ 33,703	₩ -	₩ 33,703
Others	514	45,526	-	46,040
Total	₩ 514	₩ 79,229	₩ -	₩ 79,743
Liabilities:				
Deposits	₩ -	₩ 52,953	₩ -	₩ 52,953
Financial liabilities at FVTPL	-	11,727	-	11,727
Others	960	48,441	-	49,401
Total	₩ 960	₩ 113,121	₩ -	₩ 114,081

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(3) Significant transactions with related parties for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	2012							
		Controlling company		Entities under common control		Investments in associate		Total
Revenues:								
Interest revenues	₩	1,567	₩	1,302	₩	-	₩	2,869
Commission revenues		-		319		-		319
Gain on financial instruments at FVTPL		-		101,117		-		101,117
Others		-		32		-		32
Total	₩	1,567	₩	102,770	₩	-	₩	104,337
Expenses:								
Interest expenses	₩	-	₩	2,672	₩	-	₩	2,672
Commission expenses		-		123		-		123
Loss on financial instruments at FVTPL		-		64,784		-		64,784
Total	₩	-	₩	67,579	₩	-	₩	67,579

Classification	2011							
		Controlling company		Entities under common control		Investments in associate		Total
Revenues:								
Interest revenues	₩	-	₩	-	₩	705	₩	705
Commission revenues		-		-		50		50
Total	₩	-	₩	-	₩	755	₩	755
Expenses:								
Interest expenses	₩	-	₩	-	₩	73	₩	73
Reversal of allowance for possible losses		-		-		(138)		(138)
Total	₩	-	₩	-	₩	(65)	₩	(65)

(4) The key management compensations for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification		2012		2011
Short-term employee benefits	₩	4,819	₩	5,516
Post retirement employee benefits		1,298		1,981
Stock option		(98)		(4,520)

The key management includes directors, executives and officers who have authorities and responsibilities for decision making of the business plan, operations and control over the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011 AND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

49. CONTINGENCIES AND COMMITMENTS:

(1) The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, amounting to ₩1,784,725 million and ₩1,645,070 million as of December 31, 2012 and 2011, respectively.

(2) Endorsed notes with collateral amounted to ₩25,733 million and ₩33,283 million as of December 31, 2012 and 2011, respectively. Endorsed notes without collateral held at the merchant banking amounted to ₩7,530,500 million and ₩7,843,800 million as of December 31, 2012 and 2011, respectively.

(3) The Company is obliged to repurchase some loans previously sold to Korea Asset Management Corporation ("KAMCO") under certain conditions, including the following:

- When it is considered impossible to collect the loans, interest due to delay in repayment of loans, and interest over months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-ordered receivership process and the cancellation of mediation.

As of December 31, 2012, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩475 million. An additional loss or profit may occur, depending on the loan classification, valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their RP.

(4) The Consolidated Group has pending litigations as a plaintiff or a defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Consolidated Group are approximately ₩323,949 million (690 cases) and ₩418,765 million (214 cases), respectively, as of December 31, 2012. The Consolidated Group recognized ₩45,392 million of provisions related to these lawsuits.

Major ongoing litigations related to the Consolidated Group's contingencies are as follows (Unit: In millions):

Defendant	Plaintiff	Content	Note
The Company	Hyundai Merchant and Marine Company Limited	Return of performance bond etc.	(*1)

(*1) As of December 31, 2012, the lawsuit has been filed and named the Company as a defendant. The action, purportedly brought on behalf of a Hyundai Merchant and Marine Company Limited, the plaintiff, that the Company held performance bond of ₩275.5 billion which the plaintiff paid as a priority bidder for M&A of Hyundai Engineering & Construction Co., Ltd. The plaintiff claimed the return of the performance bonds and the damages of ₩50 billion for the related expenses. If a financial judgment of the law suit agrees the claim, ₩50 billion of damage will be paid proportionately based on the 25 percent ownership, which the Company has on the post-management council.

The Consolidated Group believes that the outcome of these matters will not have a material impact on the financial statements.

(5) Contingencies related to project financing (PF)

Asset-backed commercial paper (ABCP) purchase agreements and unused credit limits related to PF as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Type		Dec. 31, 2012		Dec. 31, 2011
ABCP purchase agreement	₩	300,000	₩	252,100
Unused credit limit on PF loan		311,277		323,893
Total	₩	611,277	₩	575,993

50. OPERATION PERFORMANCE OF TRUST ACCOUNTS:

(1) Trust accounts as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Total assets				Operating revenue			
	Dec. 31, 2012		Dec. 31, 2011		Dec. 31, 2012		Dec. 31, 2011	
Trust accounts	₩	23,967,287	₩	24,559,902	₩	306,478	₩	316,654

(2) The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as of December 31, 2012 and 2011 are as follows (Unit: In millions):

Classification	Dec. 31, 2012		Dec. 31, 2011	
Trust accounts guaranteeing the repayment of principal:				
Installment trust	₩	86	₩	85
Household trust		550		609
Old-age pension trust		2,110		2,552
Corporate trust		38		37
Personal pension trust		194,976		200,098
Retirement Trust		82,421		179,431
New personal pension trust		76,245		67,766
New old-age pension trust		1,226		1,398
Pension trust		263,792		224,191
Subtotal		621,444		676,167
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:				
Unspecified monetary trust		59		59
Development money trust		5		5
Subtotal		64		64
Total	₩	621,508	₩	676,231

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

51. DIVIDENDS:

(1) Details of the dividends for the years ended December 31, 2012 and 2011 are as follows:

Type		2012		2011
Dividend per share(dividend rate) (Unit: In Korean won, %):				
The quarterly dividend per share	₩	-	₩	1,510(30.2%)
The yearly dividend per share		50(1.0%)		-
Total	₩	50(1.0%)	₩	1,510(30.2%)
Number of shares issued (Unit: shares):		644,906,823		644,906,823
Total amount of the dividends (Unit: Korean won in millions):				
The quarterly dividends	₩	-	₩	973,809
The yearly dividends		32,245		-
Total	₩	32,245	₩	973,809

(2) Details of the estimated propensity to dividend for December 31, 2012 and 2011 are as follows (Unit: In millions, %):

Type		2012		2011
Total amount of the dividend (*1)	₩	32,245	₩	973,809
Net income of owners		658,871		1,654,745
Propensity to dividend		4.89%		58.85%
Adjusted net income after reserve for credit losses		602,170		1,489,936
Propensity to dividend based on adjusted net income after reserve for credit losses		5.35%		65.36%

(*1) Quarterly dividend could be contained between total amounts of the dividend.

(3) Details of the dividend yield ratio for the years ended December 31, 2012 and 2011 are as follows (Unit: In Korean won, %):

Type		2012		2011
Dividend per share	₩	50	₩	1,510
Closing price of settling day		7,620		7,350
Dividend yield ratio		0.66%		20.54%

(*1) Quarterly dividend could be contained between total amounts of the dividend.

52. EVENTS AFTER THE REPORTING PERIOD:

The Board of directors' of the Consolidated Group resolved share-for-share exchange and made an agreement with Hana Financial Group which is a controlling company of the Consolidated Group on January 28, 2013. By the agreement, the stock exchange ratio for one share is 0.1894302 common share of Hana Financial Group. The Company will be a wholly-owned subsidiary of Hana Financial Group after exchange day which is scheduled on April 5, 2013.

INDEPENDENT AUDITOR'S REPORT

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of
Korea Exchange Bank:

We have audited the accompanying separate financial statements of Korea Exchange Bank (the "Company"). The separate financial statements consist of the separate statements of financial position as of December 31, 2012 and 2011, respectively, and the related separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended Decemeber 31, 2012 and 2011, respectively. The Company's management is responsible for the preparation and fair presentation of the separate financial statements and our responsibility is to express an opinion on these separate financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and 2011, respectively, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Korean International Financial Reporting Standards("K-IFRS").

Deloitte Anjin LLC

March 8, 2013

Notice to Readers

This report is effective as of March 8, 2013, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying separate financial statements and may result in modifications to the auditor's report.

SEPARATE STATEMENTS OF FINANCIAL POSITION

KOREA EXCHANGE BANK
AS OF DECEMBER 31, 2012 AND 2011

(In millions of KRW)

	Dec. 31, 2012		Dec. 31, 2011	
ASSETS				
Cash and due from banks	₩	6,929,182	₩	7,409,044
Financial assets at fair value through profit or loss		1,472,758		1,481,282
Hedging derivative assets		37,867		32,537
Available-for-sale financial assets		6,969,864		6,054,791
Held-to-maturity financial assets		5,017,636		5,332,794
Loans		66,457,419		64,691,036
Investments in subsidiaries and associates		1,071,522		1,052,873
Tangible assets		1,204,775		1,188,863
Investment property		178,312		176,442
Intangible assets		68,643		73,688
Prepaid income taxes		1,217		963
Other assets		7,805,003		7,080,878
Merchant banking account assets		2,578,216		2,392,454
Non-current assets held for sale		192		-
Total assets	₩	99,792,606	₩	96,967,645
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits	₩	63,548,804	₩	61,919,043
Financial liabilities at fair value through profit or loss		1,308,602		967,748
Hedging derivative liabilities		-		897
Borrowings		6,562,502		9,175,095
Debentures		5,810,107		4,975,857
Provisions		234,503		234,595
Income taxes payable		34,810		380,327
Deferred income tax liabilities		29,231		51,663
Other liabilities		12,790,021		10,054,736
Merchant banking account liabilities		528,735		753,304
Total liabilities		90,847,315		88,513,265
SHAREHOLDERS' EQUITY:				
Capital stock		3,224,534		3,224,534
Capital surplus		940		940
Hybrid securities		249,772		249,772
Stock option		40		-
Retained earnings (reserve for credit losses: ₩680,066 million as of December 31, 2012, and ₩0 million as of December 31, 2011 Additional expected reserve for credit losses: ₩17,815 million as of December 31, 2012, and ₩680,066 million as of December 31, 2011)		5,282,664		4,675,124
Accumulated other comprehensive income		187,341		304,010
Total shareholders' equity		8,945,291		8,454,380
Total liabilities and shareholders' equity	₩	99,792,606	₩	96,967,645

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

KOREA EXCHANGE BANK
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW, except per share amounts)

		2012		2011
Net interest income:				
Interest revenues	₩	4,144,036	₩	4,148,492
Interest expenses		(1,836,134)		(1,752,112)
		2,307,902		2,396,380
Net commission income:				
Commission revenues		468,029		458,518
Commission expenses		(334,848)		(258,202)
		133,181		200,316
Net income (loss) of financial instruments at fair value through profit or loss:				
Gains on financial instruments at fair value through profit or loss		3,565,922		3,813,429
Losses on financial instruments at fair value through profit or loss		(3,570,364)		(3,754,733)
		(4,442)		58,696
Net income (loss) of hedging derivatives:				
Gains on hedging derivatives		7,816		28,379
Losses on hedging derivatives		(12,577)		(27,601)
		(4,761)		778
Net income of available-for-sale financial assets:				
Gains on available-for-sale financial assets		238,560		1,187,304
Lossess on available-for-sale financial assets		(22)		(16)
		238,538		1,187,288
Net impairment loss:				
Impairment losses on financial assets		(612,707)		(493,594)
General and administrative expenses		(1,470,782)		(1,395,517)
Net other operating income:				
Other operating revenues		1,297,202		1,405,398
Other operating expenses		(1,037,441)		(1,272,626)
		259,761		132,772
Operating income		846,690		2,087,119
Net non-operating income:				
Non-operating revenues		63,657		62,436
Non-operating expenses		(47,258)		(45,299)
		16,399		17,137
Income before income tax expense		863,089		2,104,256
Income tax expense		(237,299)		(482,145)
Net income:				
(net income after reserve for credit losses: ₩607,975 million for the year ended December 31, 2012, and ₩1,455,229 million for the year ended December 31, 2011)	₩	625,790	₩	1,622,111
Other comprehensive income (loss):				
Gain or loss on change in fair value of available-for-sale financial assets		(113,021)		(606,835)
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets		(89)		(25)
Gain or loss on overseas business translation		(30,931)		5,234
Tax on other comprehensive income		27,372		124,440
		(116,669)		(477,186)
Total comprehensive income	₩	509,121	₩	1,144,925
Earnings per share (in Korean won):				
Basic earnings per share	₩	942	₩	2,487
Diluted earnings per share	₩	942	₩	2,483

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

KOREA EXCHANGE BANK
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW)

	Capital stock	Capital surplus	Hybrid securities	Stock option	Retained earnings	Accumulated other comprehensive income	Total
January 1, 2011	₩ 3,224,534	₩ 940	₩ 249,772	₩ -	₩ 4,593,243	₩ 781,196	₩ 8,849,685
Dividends	-	-	-	-	(548,171)	-	(548,171)
Balance after appropriations	3,224,534	940	249,772	-	4,045,072	781,196	8,301,514
Net income	-	-	-	-	1,622,111	-	1,622,111
Quarterly dividend	-	-	-	-	(973,809)	-	(973,809)
Gain or loss on change in fair value of available-for-sale financial assets, after tax effect	-	-	-	-	-	(482,014)	(482,014)
Gain or loss on overseas business translation, after-tax effect	-	-	-	-	-	4,847	4,847
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect	-	-	-	-	-	(19)	(19)
Dividends on hybrid securities	-	-	-	-	(18,250)	-	(18,250)
December 31, 2011	₩ 3,224,534	₩ 940	₩ 249,772	₩ -	₩ 4,675,124	₩ 304,010	₩ 8,454,380
January 1, 2012	₩ 3,224,534	₩ 940	₩ 249,772	₩ -	₩ 4,675,124	₩ 304,010	₩ 8,454,380
Net income	-	-	-	-	625,790	-	625,790
Gain or loss on change in fair value of available-for-sale financial assets, after tax effect	-	-	-	-	-	(85,670)	(85,670)
Gain or loss on overseas business translation	-	-	-	-	-	(30,931)	(30,931)
Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect	-	-	-	-	-	(68)	(68)
Dividends on hybrid securities	-	-	-	-	(18,250)	-	(18,250)
Stock options	-	-	-	40	-	-	40
December 31, 2012	₩ 3,224,534	₩ 940	₩ 249,772	₩ 40	₩ 5,282,664	₩ 187,341	₩ 8,945,291

SEPARATE STATEMENTS OF CASH FLOWS

KOREA EXCHANGE BANK
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of KRW)

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	625,790	₩	1,622,111
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:				
Income tax expense		237,299		482,145
Interest income, net		(2,307,902)		(2,396,380)
Dividend income		(9,059)		(48,620)
Rental revenues		(3,206)		(3,208)
Gain on valuation of trading securities, net		(380)		(418)
Gain on valuation of trading bonds, net		(2)		(234)
Gain on valuation of trading derivatives, net		(34,262)		(64,730)
Loss (gain) on valuation of hedging derivatives, net		5,517		(111)
Gain on disposal of available-for-sale equity securities, net		(188,456)		(1,178,248)
Gain on disposal of available-for-sale debt securities, net		(50,082)		(9,040)
(Reversal of) Impairment loss on available-for-sale financial assets, net		15,305		(5,806)
Transfer to allowance for possible losses		597,402		499,400
Salaries		-		20,400
Expenses for fringe benefits		-		2,100
Depreciation and amortization		96,489		91,244
Loss (gain) on disposal of tangible assets, net		70		(133)
Loss on disposal of investment property		73		-
Impairment loss on investment in associates		748		-
Loss on disposal of investment in associates		-		205
Impairment losses on intangible assets		2,074		1,806
Retirement allowances		89,971		45,151
Long-term compensation expense for performance bonus		33,842		22,086
Reversal of stock-option compensation costs, net		(2,453)		(4,533)
Reversal of provision for acceptances and guarantees		(3,867)		(8,999)
Transfer to (reversal of) provision for unused credit limit		6,642		(40,690)
Transfer to other provisions		18,249		11,278
Gain on foreign exchange trading, net		(34,989)		(3,132)
Others, net		(4,710)		3,900
		(1,535,687)		(2,584,567)
Changes in operating assets and liabilities:				
Net decrease in trading securities		337		49,044
Net decrease (increase) in trading bonds		288,641		(345,942)
Net (increase) decrease in trading derivatives assets		(245,906)		82,147
Net decrease in hedging derivatives assets		711		141
Net increase in loans		(2,684,997)		(2,356,915)
Net decrease (increase) in other assets		984,731		(248,622)
Net increase in merchant banking account assets		(181,134)		(960,071)
Net increase in deposits		1,901,683		1,240,274
Net increase (decrease) in trading derivative liabilities		340,878		(4,335)
Net decrease in hedging derivative liabilities		(897)		(1,614)
Payment of severance benefits		(33,486)		(71,660)
Increase in plan assets		(74,300)		(12,500)
Net decrease in other provisions		(20,167)		(17,386)
Net increase in other liabilities		1,716,089		691,354

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

KOREA EXCHANGE BANK
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

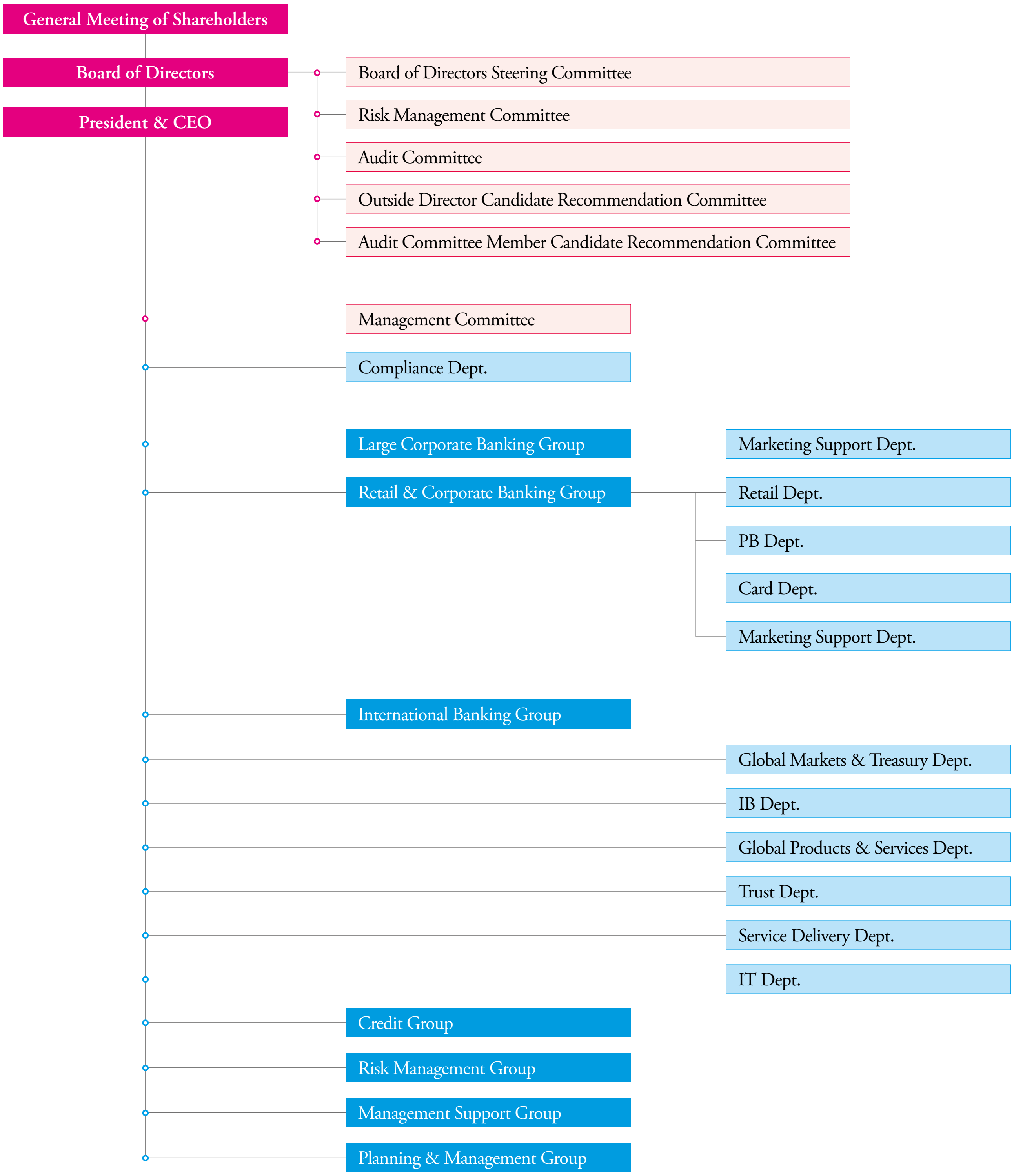
(In millions of KRW)

		2012		2011
Net decrease in merchant banking account liabilities	₩	(224,487)	₩	(195,197)
		1,767,696		(2,151,282)
Cash generated from operating activities:		1,592,954		2,555,360
Net cash received for interest income		9,061		48,623
Net cash received for dividend income		(578,130)		(333,844)
Payment of income tax		1,023,885		2,270,139
Net cash provided by (used in) operating activities		1,881,684		(843,599)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash flows provided by investing activities				
Net decrease in restricted due from banks		1,343,932		721,786
Net decrease in available-for-sale financial assets		-		530,850
Net decrease in held-to-maturity financial assets		309,628		533,164
Disposal of tangible assets		184		1,424
Disposal of investment property		271		-
Disposal of intangible assets		213		-
Cash inflow related to lease		2,199		3,375
		1,656,427		1,790,599
Cash flows used in investing activities				
Net increase in available-for-sale financial assets		(816,452)		-
Investments in subsidiaries		(19,397)		-
Purchase of tangible assets		(90,410)		(73,739)
Purchase of intangible assets		(13,298)		(23,835)
Net increase in guarantee deposits paid		(8,844)		(19,567)
		(948,401)		(117,141)
Net cash provided by investing activities		708,026		1,673,458
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net cash flows provided by financing activities				
Net increase in bills sold		-		44,282
Increase in borrowings		1,855,301		2,331,937
Increase in debentures		3,286,743		1,893,143
		5,142,044		4,269,362
Net cash flows used in financing activities				
Net decrease in call money		(962,275)		(36,719)
Net decrease in bills sold		(33,607)		-
Net decrease in bonds sold under repurchase agreements		(22,055)		(98,800)
Decrease in borrowings		(3,328,499)		(1,446,894)
Decrease in debentures		(2,482,774)		(1,338,559)
Dividends paid		-		(1,521,980)
Dividends on hybrid securities		(18,250)		(18,250)
		(6,847,460)		(4,461,202)
Net cash used in financing activities		(1,705,416)		(191,840)
NET INCREASE IN CASH AND CASH EQUIVALENTS		884,294		638,019
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD		2,688,244		2,012,935
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(20,224)		37,290
CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD	₩	3,552,314	₩	2,688,244

ORGANIZATION CHART

AS OF MARCH 31, 2013

7 Groups
10 Departments (Including Compliance)
18 Marketing Support Departments
62 Divisions



BOARD OF DIRECTORS & MANAGING DIRECTORS

AS OF MARCH 31, 2013

BOARD OF DIRECTORS

Standing Directors	Yun, Yong Ro	President & CEO
	Jang, Myoung Kee	Deputy President
Outside Directors	Kim, Joo Song	Chairman
	Chun, Jin Suk	
	Baang, Young Min	
	Ravi Kumar	
	Kwon, Young June	
	Ha, Yong E	
	Hong, Eun Joo	
	Han, Ki Jeong	

MANAGING DIRECTORS

Shin, On Song	Auditor
Chu, Jin Ho	Senior Managing Director, Large Corporate Banking Group
Lee, Woo Kong	Senior Managing Director, Risk Management Group
Shin, Hyun Seung	Senior Managing Director, Retail & Coporate Banking Group
Kwon, Jun Il	Managing Director, PB Department
Bae, Moon Hwan	Managing Director, Trust Department

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AS OF MARCH 31, 2013

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Seo, Kyoung Un
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Hong, Yeon Soo
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Middle East, Eastern Europe Manager
Noh, Jae Jin
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Korea, Community Banks
Senior Area Manager
Kim, Yong Yun
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Americas, Latin America
Senior Area Manager
Yi, Sung Mun
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Europe, Africa
Senior Area Manager
Kim, Hyun Sik
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FI London Desk
Senior Area Manager
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Nam, Chang Woo
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Medium & Long-Term Financing
Head of Foreign Currency Treasury Team
Roh, Choong Hwan
Tel: 82-2-729-0365

Senior Manager
Kim, Beom Rae
Tel: 82-2-729-0520

FOREIGN CUSTOMER DIVISION

Foreign Customer Marketing Team
Team Head
Park, Jong Lim
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Japan RM
Lee, Sang Min
Tel: 82-2-729-0304

Americas, Asia (ex. Japan) RM
Kim, Mee Sik
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Europe RM
Lee, Nahm Yon
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Center Head
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FDI Consultant
Kim, Mee Ju
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FDI Consultant
Yoo, Sinyoung
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FDI Consultant
Lee, Bo Ram
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Center Head
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Nam, Seoung Il
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IB Department
Head of IB Department
Lee, Jae Hak
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General Manager of Investment Banking Div.
Park, Seung Kil
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Structured Finance Team
Head of Structured Finance Team
Lee, Hoa Sun
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Acquisition Finance Team
Head of Acquisition Finance Team
Woo, Kyong Ho
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International Finance Team
Head of International Finance Team
Huh, Myung Wook
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Infrastructure Finance Team
Head of Infrastructure Finance Team
Kim, Myung Gyun
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Real Estate Finance Div.
General Manager of Real Estate Finance Div.
Choi, Yun Hyun
Tel: 82-2-729-0546

Real Estate Finance Team
Head of Real Estate Finance Team
Choi, Yun Hyun
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Real Estate PF Support Team
Head of Real Estate PF Support Team
Park, Min Ho
Tel: 82-2-729-8544

FX & DERIVATIVES TRADING DIVISION

General Manager
Ha, Jong Soo
Tel: 82-2-729-0472

Head of Derivatives Team
Kim, Eui Keon
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Chief Dealer
Kim, Doo Hyeon
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Chief Dealer
Kim, Jin Dong
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Kim, Gi Back
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Chief Dealer
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AS OF MARCH 31, 2013

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