

# SMART & PROFITABLE GROWTH

FOCUSING ON SOUNDNESS & COMPETITIVE STRENGTHS

Korea Exchange Bank

2008  
Annual Report





As a global bank expanding throughout Asia and the world, KEB's CI encapsulates this idea and also symbolizes its unfaltering desire to provide customers with the highest level of customer service.

## **Contents**

<u>01</u>	Profile
<u>02</u>	Features
<u>08</u>	Letter to Shareholders from the Chairman and CEO
<u>12</u>	Financial Highlights
<u>14</u>	Review of Operations
<u>38</u>	Financial Statements
<u>184</u>	Organization Chart
<u>185</u>	Board of Directors & Managing Directors
<u>186</u>	Global Directory
<u>187</u>	Overseas Network
<u>189</u>	Domestic Network

# Profile



Established in 1967 as a government-owned banking institution specializing in foreign exchange and international trade financing, Korea Exchange Bank (KEB) has maintained a pre-eminent position in these fields. KEB was privatized in 1989, and has continuously strengthened our capabilities and grown as one of the country's premiere commercial banks. Today, we are Korea's leading international bank, with strong retail banking and credit card operations complementing our longstanding commercial banking and corporate finance expertise.

Like other domestic banks, KEB was confronted with the dual threats posed by the collapse of large corporations following the 1997 Asian financial crisis as well as the bursting of the consumer credit card bubble in 2003.

Unlike many other domestic banks, KEB survived without government rescue or public bailout money. With the new capital from our major shareholder, Lone Star Funds, and a new spirit, the men and women of KEB have managed a remarkable turnaround. The platform for good quality profit growth was built in 2004.

Since 2005, KEB has proved itself as a healthy and strong institution, with profitability, capital adequacy and portfolio quality at the best levels in our history. By emphasizing our unique franchise strengths and our focus on the quality of our business, KEB continues "Smart & Profitable" growth.

In the midst of the unprecedented global economic difficulties of 2008, KEB avoided the toxic assets and capital adequacy problems that damaged so many other financial institutions. We were able to focus on continued disciplined development of the bank's capabilities. While the depth and duration of global economy downturn are difficult to estimate, KEB will work tirelessly to remain sound and with its key competitive strengths firmly in place.







With our experience in overcoming past crises, we have pursued disciplined business management to ensure that KEB is fully prepared to face future challenges and opportunities. We are continuously working to navigate through the current environment to grow as a leading Korean bank.



London

SE Comp  
2,356.65 ▼ 17.79 0.76%

3,691.99 ▼ 427.51 3.22%

CEI  
3,064.48 ▼ 416.74 5.45%

N225  
8,236.08 ▼ 390.89 4.98%

TAIEX  
5,206.05 ▼ 184.65 3.68%

STI  
1,676.79 ▼ 68.87 4.28%



KE

SSE Comp

N225

KOSPI

1,197.4

03/26

2008/04/02

09:01



We have made substantial investments to strengthen our competitiveness. Through effective resource allocation and process innovation, we are improving our service quality starting from the customers' view and enhancing work productivity.









For the past 41 years, our traditional strengths in foreign exchange, international trade finance and international network have made us the unrivalled leader among Korean banks. We will continue to develop our expertise and expand our presence in global markets to maintain our status as Korea's leading global bank.





Chairman **Richard F. Wacker**

## To our Shareholders

So much has been written recently – and so much more undoubtedly will be written – about the economic crisis that has ravaged the global economy and weakened so many financial institutions around the world. Rather than recount the events and the causes, let me articulate for you the state of your bank and how we are managing through the difficult environment to secure a safe and profitable future.

As banks around the world have been devastated by the risks they took during the last several years, KEB reported a profit of KRW 783 billion in 2008, down 19% from our 2007 results. We ended the year with a healthy total capital adequacy level of 12.65% (Basel II basis). More importantly, our Tier 1 capital climbed to 8.82%, and our level of 6.3% Tangible Common Equity – a metric investors frequently use to gauge the quality of a bank's capital – is one of the highest in Korea and substantially above the level of most banks in major markets.



KEB avoided the so-called “toxic assets” that have crippled so many banks around the world. We incurred only minor losses (less than \$30 million) from the US mortgage market meltdown and have no direct holdings of US or UK mortgage assets or mortgage-backed securities. We have minor indirect exposure through our \$45 million CDO holdings, which are triple-A rated. We have no exposure through credit default swaps.

There were dramatic financial institution failures in 2008, and though KEB has the largest correspondent banking network of any Korean bank and a large financial institutions business, we suffered only one notable loss in connection with the collapse of Lehman Brothers (JPY 3bn, ~\$30 million).

Our comparatively strong results are a credit to the efforts of the men and women of KEB and our focus on the competitiveness of our core banking franchise. KEB is the most global Korean bank. We provide the best capabilities for Korean companies doing business around the world, as well as the best capabilities for foreign customers living and doing business in Korea. As such, we strive to meet global standards in all areas of our bank, from risk management to compliance to customer service and the effectiveness of our business processes.

Despite the difficult environment, KEB continues to be recognized as the best trade finance and foreign exchange bank in Korea. We maintained our strong #1 position these markets and demonstrated our important role to support the export engine of the Korean economy. Gains from foreign exchange transactions and foreign currency related fees grew 21.2% and 18.9%, respectively, despite economic slowdown late in the year.

Our pricing efforts have given KEB the second highest net interest margin among Korean banks (2.90% for 2008). Our cost management efforts have resulted in the second best productivity levels (profit per staff and cost ratio) among our peers.

We were recognized by the Korean government for our leadership in establishing a world-class anti-money laundering program and system infrastructure. Our customer service center earned the KS Mark Certification from the Korean Standards Association, the first ever for a domestic financial institution. Our KEB Foundation received plaudits for its continued leadership since its formation as the first charitable foundation in the Korean financial industry. These efforts are especially important during times like the present.

Because KEB avoided the problems during the early phase of this economic crisis, we were able to stay true to our core strategy and focus on disciplined development of the bank's capabilities. But the global downturn spread rapidly during the fourth quarter of 2008. As end-markets for Korean exports in many industries came under stress, many of our customers have had to adjust their expectations and operations for a contraction in output in 2009. We saw the signs of economic distress in the growth of non-performing loans during the fourth quarter, ending the year at 1.09% of total loans, and contributing to higher loan loss provisions. We expect continued upward pressure in 2009, particularly in the SME sector.

With a sober view of the continued economic difficulties, we have further strengthened our efforts to ensure KEB's continued soundness. In a step consistent with the environment, our Board of Directors agreed to substantially reduce our dividend, down more than 80% from last year's level, to KRW 125 per share. This preserves a meaningful amount of core capital for KEB, but also maintains our management commitment to a sustainable dividend to demonstrate that we recognize the importance and value of shareholder capital.

KEB also issued supplemental capital (Tier 2) during the fourth quarter and realized the benefit of a revaluation of our fixed assets in connection with the upcoming conversion to International Financial Reporting Standards

## Letter to Shareholders from the Chairman and CEO

-

(IFRS). We have approved plans that we will execute in early 2009 to supplement our Tier 1 capital through issuance of a modest amount of hybrid capital instruments. While these measures don't change the bank's core risk capital, they do provide some comfort for the bank's creditors and bondholders, as well as providing a regulatory capital "buffer" against some effects, such as the translation of our foreign currency assets into a potentially further weakened Korean won.

Most important, however, is the continued disciplined management of the bank's risk exposures. Over the past several years the bank has made significant investments in improved systems and tools for customer segmentation and management, credit underwriting, and risk management. We are applying all of these capabilities into the strategic allocation of the bank's capital to our most important customers and to those where the bank realizes the proper returns. We will maintain and build on our relationships with those customers that depend on and contribute to our franchise strengths in F/X, trade finance, and international banking. At the same time, we continue to free capital from riskier and poor return exposures, and we are optimizing the risk-weighted asset position of exposures that we maintain.

KEB is actively participating in several initiatives sponsored by the Korean government – such as the Fast Track program – because we believe they are helpful to a controlled management of exposures involving multiple financial institutions. In particular, the expanded credit guarantee programs will be useful in mitigating the banks' risk while facilitating incremental liquidity to some viable companies.

While the depth and duration of this cycle are difficult to estimate, we are managing KEB to remain sound and with our key competitive strengths firmly in place. The management and staff of your bank are working tirelessly to protect the soundness, liquidity, and ongoing competitiveness of KEB.

It has been a great honor for me to serve as President & CEO of KEB for the past four years. I am proud of the accomplishments that the men and women of KEB have made during my term, and I cannot thank them enough for their hard work, commitment to excellence, and willingness to reach for global standards to differentiate our bank from our peers. But as much as we have improved, we have even more opportunity to get better. I am pleased that Mr. Larry Klane has joined to become the next President & CEO of our bank. He is a great talent, and I know that he will build on our successes and help us find new ways to address our weaknesses. Please welcome him to our bank and give him as much support as you have given me these past four years. With the continued support and encouragement of our shareholders, we will continue to build KEB into a stronger and more competitive institution that will thrive in the years to come. I thank you and wish you and your families a peaceful and healthy 2009.



Richard F. Wacker  
Chairman



President & CEO **Larry A. Klane**



“

I am excited, and I am honored to have this opportunity to become the President and CEO of KEB.

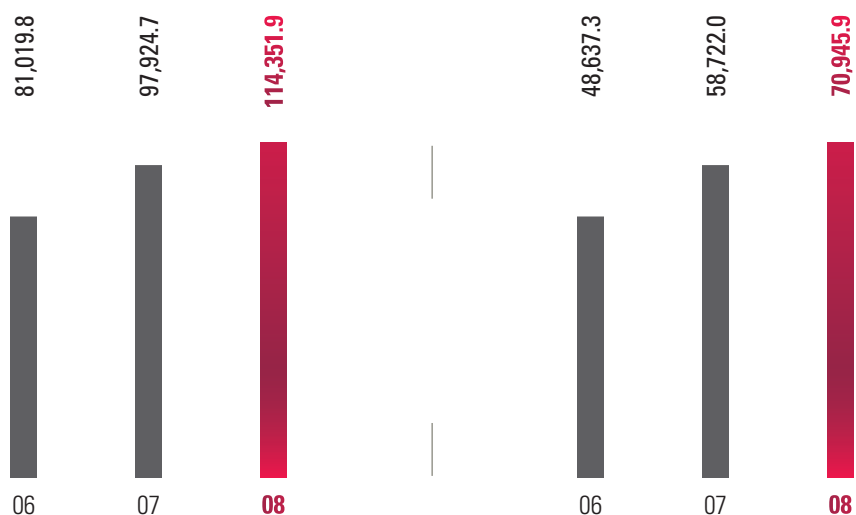
I will dedicate my efforts to maintaining a strong track record for KEB, to continue building a great bank and to help KEB become even more competitive in the future.

”

## Summary of Balance Sheet &amp; Income Statements

(In billions of KRW)

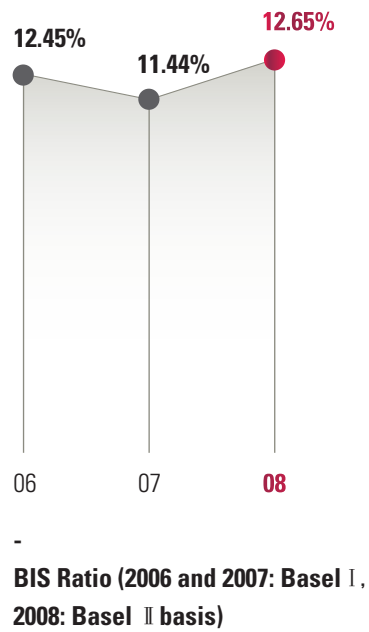
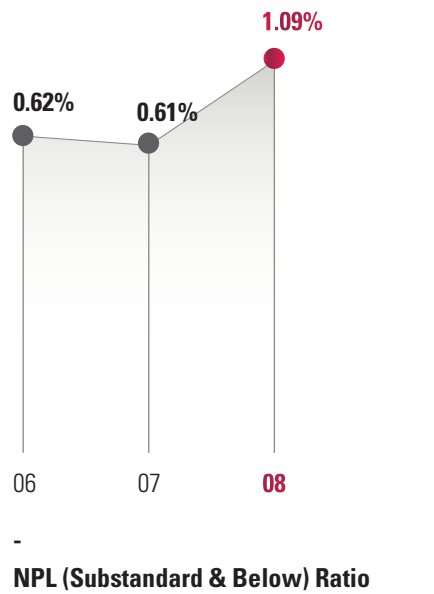
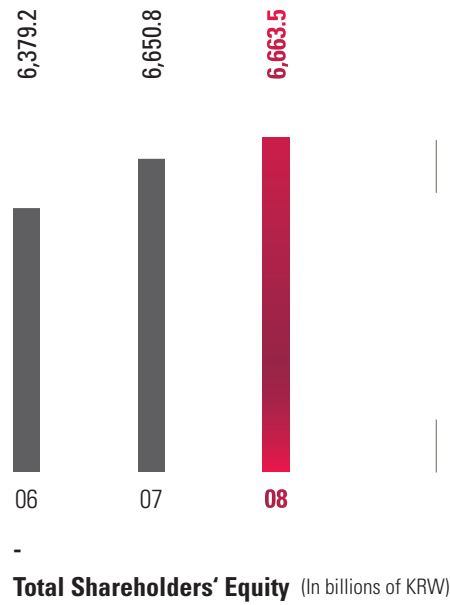
	2008	2007	YoY
<b>Balance Sheet</b>			
Total Assets	114,351.9	97,924.7	+16.8%
Total Credits	70,945.9	58,722.0	+20.8%
Corporate	52,505.9	41,394.0	+26.8%
Household	15,883.8	14,885.7	+6.7%
Credit Card	2,556.1	2,442.3	+4.7%
NPL (Substandard & Below) Ratio	1.09%	0.61%	+0.48%p
Delinquency Ratio	0.92%	0.56%	+0.36%p
Total Deposits	67,933.1	59,755.4	+13.7%
Total Shareholders' Equity	6,663.5	6,650.8	+0.2%
Paid-in Capital	3,224.5	3,224.5	-
BIS Ratio (2007: Basel I , 2008: Basel II basis)	12.65%	11.44%	+1.21%p
Tier I Ratio	8.82%	8.65%	+0.17%p
<b>Income Statement</b>			
Net Interest Margin	2.90%	3.23%	-0.33%p
Income Before Provision	1,963.8	1,836.0	+7.0%
Net Income	782.6	960.9	-18.6%
Return On Assets (ROA)	0.83%	1.29%	-0.46%p
Return On Equity (ROE)	11.90%	15.05%	-3.15%p



Total Assets (In billions of KRW)

Total Credits (In billions of KRW)











# KEB's “Smart & Profitable” Growth

## Review of Operations

### The Preferred Global Banking Partner

Global Corporate Bank	17
International Group	21
Foreign Customer Marketing Department	22

### Responding Efficiently to Diversified Individual Needs

Retail Bank	24
Card Bank	27

### Quality Service through Efficient Systems & Process

Quality Service Provider	29
Information & Technology	30

### Highest Standards & Advanced Risk Management

Risk Management	32
-----------------	----

### Transparent Corporate Culture & Foundation for Sharing

Corporate Ethics	35
KEB Foundation	36

# The Preferred Global Banking Partner

Best Foreign Exchange Bank in  
Korea for the 7th consecutive year



Best Trade Finance Bank in Korea  
for the 8th consecutive year

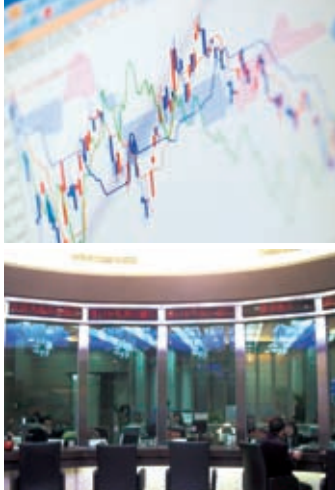


---

KEB's Global Corporate Bank (GCB), International Group (IG) and Foreign Customer Marketing Department work seamlessly to serve our corporate banking customers in Korea and around the globe.

- GCB comprises our World Corporate Group, Corporate Group, Capital Markets Department, and Global Products Department.
- KEB's World Corporate Group manages our relationship with our Korea-based large corporate customers, while Corporate Group is dedicated to serving the needs of small & medium-sized enterprises (SMEs).
- The Foreign Customer Marketing Department focuses our bank on the special needs of foreign companies and individuals as they come to do business in Korea.
- Our International Group supports the needs of these customers through the resources and activities of KEB's extensive overseas network in 21 countries around the globe.

---



**SME Business** Small and medium-sized enterprises (SMEs) continued to rank as the largest customer group for the bank's lending activities. Through focused customer-segmentation strategies and marketing aimed at high-quality companies, KEB saw consistent, steady growth in loan volume to SMEs in 2008 with total credits to SMEs reaching KRW 27.9 trillion at the end of 2008. The 18.7% growth rate over the prior year included 6.9% pts from the effect of translating foreign currency credits into a significantly weakened Korean won. Among total credits, Korean Won denominated loans to SMEs stood at KRW 20.7 trillion, an increase of 8.1% over KRW 19.2 trillion recorded a year earlier. This figure accounted for 46.5% of total Korean Won denominated loans made at the end of 2008.

We rely on our expertise and proven advantages in the export & import finance businesses to develop clear customer segmentation strategies for our SME lending operations. In 2008, our "KEB BizWin Loan" programs targeting high-quality trade-oriented SMEs reinforced our "safe and profitable growth" approach toward this key customer category. KEB's SME customer group consists principally of high quality and internationally competitive export manufacturers who have proven their resilience through unfavorable domestic economic conditions. KEB has the lowest relative exposure to economically sensitive SOHO (Small Offices and Home Offices) domestic-only businesses among Korean banks.

**Large Corporate Business** The World Corporate Group serves the needs of large Korean corporations as they do business around the world. Our Senior Relationship Managers (SRM) coordinates the delivery of KEB's products and services to large corporate customers through our domestic operations and KEB's wide international network. The World Corporate Group performs a pivotal role in increasing KEB's deposit-taking in both Korean won and foreign currency, as well as growing good quality assets in areas from traditional corporate lending to project finance and investment banking.

Despite ever-intensifying competition with domestic and foreign financial institutions, KEB showed continued strong performance in growing our business with large corporate customers in 2008. The bank's total credits to large corporations were KRW 24.6 trillion at the end of 2008, expanding 37.5% over the KRW 17.9 trillion posted at year-end 2007. Among total credits, KRW denominated loans to large corporations stood at KRW 5.4 trillion, an increase of 41.7% compared to the previous year.

By making outstanding achievements in the foreign exchange sector, including export and import financing performance, the large corporate business performed a central role in KEB retaining its #1 position in those key markets. KEB financed large corporations' exports of USD 95.5 billion (22.6% of the nation's overall performance of USD 422.4 billion) and imports of USD 82.9 billion (19% of the nation's overall performance of USD 435.4 billion), accounting for 73% and 67% of the bank's total performance, respectively.

KEB's relationship managers focus on integrated solutions to customers' transaction processing and financing needs. By interfacing our electronic banking systems, such as the Global CRMS, In-House Banking System, and Firm Banking to the ERP systems of core customers, we built broader and deeper partnerships between KEB and its customers. And with deeper knowledge





USD	158.119	152681	158
JPY	160625	155101	159
EUR	201285	193431	199
GBP	224187	215439	222
CAD	123407	118593	122
AUD	101942	97964	101

“

**In our role as one of Korea's most important financial institutions, we are committed to providing our many finest in corporate products and services.**

”

of our customers comes stronger risk management of the bank's exposures; not one of KEB's large corporate customers became insolvent in 2008.

**F/X & Trade Finance** Boasting the broadest global branch network and most extensive money exchange and trade finance operations of any Korean bank, KEB continued its reign as Korea's unchallenged foreign exchange specialist bank. In 2008, we held onto our leading position in the domestic F/X market for the 13th consecutive year with a share of 43% of total transactions handled by the nation's seven top commercial banks.

—  
This success was repeated in the trade finance sector, where we recorded industry-leading market shares of 31% each for both export financing and import financing.

—  
In recognition of our continued strong performance in these core business areas in 2008, KEB garnered kudos from respected international financial publications. We were named “Best Trade Finance Bank in Korea” (8th consecutive year) and “Best Foreign Exchange Bank in Korea” (7th consecutive year) by Global Finance. Asiamoney also selected KEB as “2008 Best Foreign Currency Exchange Bank in Korea” (3rd consecutive year).

KEB constantly is developing new services to strengthen our leading market position and stay ahead of the competition. In 2008, KEB offered “Yuan remittance and Chinese account opening services” based on a business alliance with the Bank of China and the Industrial and Commercial Bank of China. We also developed a wide array of products and services to help customers actively address the volatility in the value of the won triggered by the global financial crisis. For consumers, by offering the ‘foreign currency-based time deposit that pays interest’ and the ‘foreign currency-based time deposit with an unfixed maturity date’, we provided customized products to customers who regularly send money overseas and who were seeking to reinvest into foreign currency funds. In tandem with the trend of steady internationalization of the Korean won, we offered ‘Global Korean won remittance services,’ enabling our customers to carry out domestic or overseas remittance with Korean won as the remittance currency. By doing so, KEB reaffirmed, yet again, its leadership position in the foreign exchange business. For corporate customers, we also adopted the ‘Clean L/C system,’ which involves opening or purchasing L/Cs for service transactions, thereby satisfying the needs of overseas construction and outsourcing companies, shipping companies, and technological service companies.

—  
The global financial crisis of 2008 further emphasized the importance of the foreign exchange business, and KEB was able to reinforce its leadership based on a customer-oriented mindset that considers the specific needs of individuals and corporations. We currently offer foreign currency transaction for 19 currencies and money exchange service for 37 currencies, the most diversified in our industry. In addition, we engage in transactions in more than 100 foreign currencies, including 70 collection currencies, making us Korea's undisputed F/X leader.

**Investment Banking** Despite significant turbulence across global markets in 2008, KEB's IB business produced a good performance with selective and prudent approach and a high quality asset portfolio.

KEB, as mandated lead arranger, arranged KRW 200.0 billion of debt financing for a private equity fund Cornerstone Equity Partners' acquisition of Daesun Distilling Co., Ltd., a renowned Soju Distiller in Busan area. KEB is currently structuring the financing scheme for a Private-Public Collaboration Development Project to build 10,000m<sup>2</sup> of artificial floating island in Han River, an unprecedented development project in Korea and one of the biggest artificial island building projects in the world. This project is part of the "Han River Renaissance Project" driven by Seoul Metropolitan Government to create a special space for cultural performances, festivals and various leisure activities.

KEB is in the process of establishing KEB Asia Finance (KAF), an investment banking subsidiary to be incorporated in Hong Kong, to allow the bank to provide our international customers and overseas units of our domestic customers the same investment banking services that we provide domestically. Once it is launched in 2009, the bank will further extend its lead over our Korean peers in providing world-class services through our international banking network, a key asset of KEB.

**Custody & Fund Administration** As Korea's leading custodian bank, KEB's custody and fund administration services enjoy a broad customer base in and outside of Korea, including institutional investors, government entities and foreign investors.

In 2008, assets under custody totaled KRW 35 trillion. Our high quality fee-based capital market services encompass custody service, ABS trustee, paying agency and escrow agency service. KEB was recognized as the "Best Sub-custodian Bank in Korea" by Global Finance in 2008. We are taking aggressive steps to respond to changes in our operating environment brought on by the enactment of Korea's Capital Market Consolidation Act. Through the complementary capabilities of our custody business and the fund accounting services of our subsidiary KEB Investor Services, KEB can offer institutional customers unequalled services that better meet their needs and growing fiduciary duties.

**Continuous Linked Settlement** Continuous Linked Settlement (CLS) is the risk-free cross border settlement of foreign exchange transactions among global financial institutions. A key feature of CLS includes simultaneous real-time settlement rather than traditional payment with multilateral netting. In close collaboration with the Korean government and the Bank of Korea, KEB made a major contribution for the introduction of CLS to Korea and the designation of Korean Won (KRW) as one of 15 CLS-eligible currencies in December 2004. KEB has been acting as Settlement Member of and Korean Won Liquidity Provider for CLS Bank International since December 2004.

Consistent with our position as the unrivalled foreign exchange bank in Korea, KEB settles F/X transactions via CLS for 9 out of 13 local banks, accounting for 70% of the country's total CLS volume. As a CLS Korean won nostro agent, KEB provides this service to 3 foreign banks out of 5





that are participating in the KRW/USD F/X market through their Seoul branches.

–  
To keep pace with global settlement trend, KEB extended CLS settlement to the non-deliverable forward (NDF) market in July 2008 and will extend it to new products such as F/X Option Premiums shortly. Korean regulators are planning to allow securities, insurance and investment companies to participate in CLS settlement, which presents the opportunity for further increases in CLS settlement volumes.

**Multi-Currency Interbank Clearing** Multi-currency interbank clearing is another competitive service that KEB has been providing for local and overseas banks since its establishment in 1967. In 2008, KEB processed 3.4 million inter-bank transfers, accounting for about 95% of total inter-bank foreign currency transfers in Korea, serving 56 local (including foreign banks' Seoul branches) and 109 overseas banks.

–  
With our growing volume of SWIFT traffic in payments, trade finance, treasury and securities, KEB has been upgrading its IT and operational capabilities to provide the highest quality services, reaching a record-high 95% Straight-Through-Processing (STP) ratio in 2008.

–  
KEB also offers the i-vostro Service, an internet-based foreign currency transfer and inquiry system ([www.eFall.com](http://www.eFall.com)) since 2005, which provides real-time online interbank clearing services to local and foreign banks.

–  
To meet the rising demand for the Korean Won settlement in the market and for Won liberalization driven by financial authorities, KEB is offering KRW related services and regulatory advisory services to foreign banks. Based on our proven expertise, reliability and reputation in both the CLS and interbank clearing arenas, KEB aims to become one of Asia's clearing hubs for domestic and overseas banks.





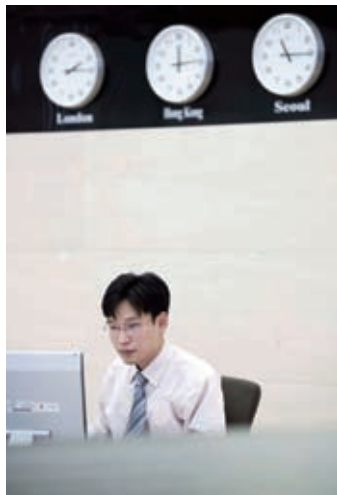
**Overseas Operations** In 2008, KEB, which has the most extensive overseas financial networks among Korean banks, further broadened our capabilities to support our customers as we established additional offices in emerging markets: sub-branches in Beijing and Tianjin city in China; and Rep-Offices in Moscow, New Delhi and Santiago. As of the end of 2008, our bank operated in 21 countries.

KEB's international operations earned pre-provisioning operating income of USD 203 million in 2008, up 25% from a year before, making up 13.0% of the bank's income. Overseas loans (USD 5,733 million) and deposits (USD 3,545 million) increased 11.8% and 4.1%, respectively.

In recognition of its growing significance and future growth opportunity, we have reinforced the operational and control functions supporting the International Group. We increased resources in Human Resources to more effectively develop and take advantage of the hundreds of local staff working in KEB's global operations. At the same time, we have further invested in risk management and compliance resources and processes, consistent with the ever more challenging global economy.

In particular, our Product Marketing unit is coordinating our efforts to selectively expand existing offerings to new markets and to selectively extend our offerings to understandable segments of local customers in some markets.

Though the global economic slowdown has impacted Korea's export-oriented economy, KEB's International Group is prioritizing asset quality. For 2009, we plan to limit the extension of our network to new geographies, concentrating on new branches in Ho Chi Minh city in Vietnam and Dubai, and incorporating our China banking branches into a local banking subsidiary.



**Priority Bank for Foreign Customers** Foreigners and foreign businesses in Korea present a Blue Ocean market opportunity for KEB. There are about 1.1 million registered foreigners living in Korea, and a growing number of foreign executives working at the 16,000 foreign invested enterprises (FIEs). To tap into this market and to develop a clearly differentiated approach to this segment of customers, the Foreign Customer Marketing Department (FCMD) was established in July 2008.

**Retail Banking** FCMD is dedicated to providing the most selective services for foreign-country individuals living in Korea. KEB has become the leading bank for these customers through our unique Expat Banking Services, offered through 3 dedicated Foreign VIP Centers and 15 Global Desks in our retail banking branches that are staffed with English speaking staffs fully-trained in the special needs of foreign-country customers.

Moreover, KEB operates special consulting desks at the most important government-supported facilities dedicated to helping foreign nationals in Korea, including the Seoul Global Center, Korea Trade-Investment Promotion Agency (KOTRA) and the Seoul Immigration Office. More broadly, KEB participates and sponsors cultural events to improve the quality of life of foreign nationals in Korea.

**Corporate Banking** KEB has distinguished itself as the first choice bank for many FIEs operating in Korea, leveraging KEB's expertise as Korea's foremost FX and trade finance handler, as well as advanced e-banking platform that includes our competitive 'Business Online Services'. Because the size of their operations in Korea are not as large as our domestic large corporate customers, many multi-national corporations (MNCs) are perceived as SMEs by other financial institutions. KEB, however, recognizes that these businesses are part of large and complex global companies and that they require more advanced services. Even for start-up FIEs, we provide credit flexibly by considering the credit rating of their parent companies, offer world class cash management solutions, etc.

KEB currently operates 14 strategic branches supporting FIEs in various regions across Korea.

**Foreign Direct Investment** KEB has been successfully managing the best Foreign Direct Investment (FDI) team in Korea. Our trained group of FDI consultants assist foreign companies investing in Korea for FDI reporting and business establishment, as well as establishing financial management systems for FIEs. KEB supported the highest proportion (34.1%) of FDI notifications processing provided consulting to 5,332 among 16,089 FIEs nationwide at year-end 2008.

Furthermore, we help newly established companies access a broad range of critical services through cooperative ties with many FDI-related institutions including law firms, accountancies, foreign chambers of commerce in Korea, foreign embassies, international trade and investment bodies and KOTRA.

# Responding Efficiently to Diversified Individual Needs

1st Prize of the "2008 Asia  
Private Banking Grand Prix"  
by the Asiaeconomy

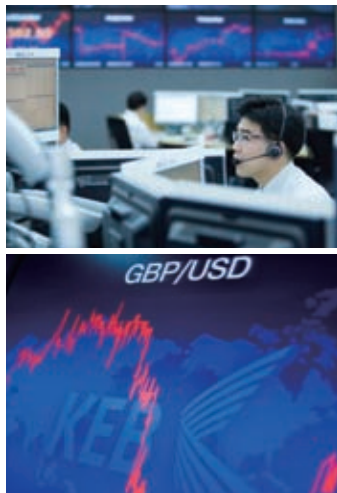


---

From our traditional deposit and loan products to our advanced private banking, bancassurance, investment product and wealth management services, KEB's Retail Bank demonstrates the wisdom of a quality-over-quantity approach to banking. • To "get closer" to our retail customers and better grasp and serve their needs, KEB has refined relationship management and segment marketing strategies to produce high quality growth.

---





**Overview** KEB's Retail Bank has continued to grow its deposits, loans and FX business, thanks to a continuous focus on customer management strategies to better serve our target customer groups. Our branch staff have new tools to support their customer management efforts, from our Segment Report System (SRS) to our Campaign Management System (CMS), that allow them to better concentrate on each customer group's needs based on life-stage, career, and other factors.

**Segmentation Marketing** KEB avoids aggressive asset-accumulation competition in our retail banking operations. Rather, we focus our energies on fostering close and enduring relationships with our best customers. This quality-over-quantity approach allows us to differentiate the KEB brand from our peers and provide unique, innovative deposit products and asset management services tailored to the needs of our targeted segments of clients.

KEB has invested in new customer analysis and CRM tools so that our branch and marketing staff can focus our marketing activities on developing and retaining our core customer segments. We have demonstrated the effectiveness of our approach by successfully expanding our foreign VIPs, medical professionals, and other groups. As a result of these efforts, the bank's customer base swelled by approximately 438,000 new customers for a total of nearly 6.2 million, a 7.6% increase.

These approaches are helping our branch staff identify the best products and services to retain and migrate the highest potential customers from lower-profit groups to high-profit (HP) customer groups. As we gather and disseminate successful marketing cases and best practices across the organization, we are seeing more consistent delivery of products and services better tailored to customer needs.

**Deposits** The bank's time deposits in Korean Won increased significantly by 47.3% to KRW 22.0 trillion at the end of 2008, while demand deposits decreased by 2.9% to KRW 14.2 trillion. As a result, total KRW deposits grew 22.4% to KRW 36.2 trillion at the end of 2008. KEB secured good liquidity through aggressive deposit attraction programs, including the "KEB Foundation Deposit" and "My Partner Deposit".

“

KEB avoids aggressive asset-accumulation competition in our retail banking operations. Rather, we focus our energies on fostering close and enduring relationships with our best customers.

”



“

KEB's wide array of loan products, such as 'Leaders Loan' and 'Yes Pro Loan' targeted at business executives, doctors and other specialized professionals, helped boost personal loans in 2008.

”

**Household Lending** KEB's household lending portfolio recorded a moderate increase of 7.1% to KRW 15.8 trillion at the end of 2008.

—

Housing loans, which had been decreasing through the first half of 2008, recovered to KRW 8.2 trillion as the government eased real estate regulations, reaching nearly the same level as of the end of 2007.

—

Personal loans expanded 16.7% to KRW 7.6 trillion in 2008 as KEB attracted promising new loan customers and expanded the cross-selling of these loans to high quality customers. KEB's wide array of loan products, such as "Leaders Loan" and "Yes Pro Loan" targeted at business executives, doctors and other specialized professionals, helped boost overall lending levels in 2008.

**Private Banking** KEB is developing a variety of sophisticated services to help VIP customers invest and manage their assets more profitably and efficiently. In the area of Private Banking (PB) products & services, we broaden the allocation of our customers' asset portfolios to equity, insurance and F/X-related investment instruments. In line with Korea's Capital Markets Act, we offer tax consultation, real-estate management & disposal services, estate & inheritance consultation, medical-related services, overseas education & emigration services, and others.

Our objective is to make KEB the first choice partner in Korea's competitive PB market by constantly expanding the scope and elevating the quality of our comprehensive and professional PB services. We expanded the scope of our PB network in 2008, adding one new Wealth Management Center (to a total of nine) in addition to the 72 specially designated PB branches.

—

To promote an exclusive brand image for our "VIP" customer segment, KEB extends to these select individuals an unparalleled level of attentive service and popular benefits. We cultivate lasting brand loyalty through fine arts performances, overseas investment conferences, and by even arranging invitational events such as mixers for the sons and daughters of VIP customers. Moreover, we are making maximum use of KEB's strengths in the F/X field and our overseas branch network to market our asset management services to Koreans residing abroad.

—

In recognition of our strong performance in this field, we won the first prize of the "2008 Asia Private Banking Grand Prix" by Asiaeconomy in August 2008.



**Bancassurance** The global financial market recession started with the sub-prime mortgage crisis in early 2008. As Lehman Brothers filed for bankruptcy and AIG applied for a rescue plan during the 2nd half of 2008, the financial market plunged. Affected by bailout plan for worldwide insurance companies (AIG, ING), a massive number of insurance holders terminated their contracts and avoid purchasing new insurance policies.

Consumer confidence in the general bancassurance market weakened drastically after the financial crisis peaked in late 2008 and government rescues of global insurers AIG and ING. KEB was not immune to these effects as unnerved policy holders terminated existing policies and refrained from purchasing new policies. Our market share (8.3%) outperformed the size of our relatively smaller branch network as KEB launched new products, and profits from bancassurance fell just 11% to KRW 36.1 billion in 2008.

**Sales of Investment Products** Similarly, the unprecedented declines and volatility in global equity and corporate fixed-income markets discouraged new investment in investment products. Income from sales of investment products declined significantly from KRW 150.0 billion in 2007 to KRW 78.3 billion in 2008. Despite these pressures, KEB retained customer loyalty as AUM rose slightly (1.3%) from KRW 7,231.5 billion at the end of 2007 to reach KRW 7,326.7 billion at the end of 2008.

KEB's investment product sales philosophy embraces an "Open Architecture" strategy to offer our customers the best performing products available from the best performing asset managers in the market. As of the end of 2008, KEB offered a total of around 200 onshore and 150 offshore investment funds.

The challenges of the current financial environment have reinforced the importance of the rigorous attention to investing fundamentals, including proper asset allocation appropriate to the risk appetite of our customers, thorough understanding of product risk, and portfolio loss mitigation strategies.

In 2008, we made both quantitative and qualitative improvements to customer services, including enhanced communication of ongoing investment product evaluation details and an SMS alert system on earning rates. KEB substantially upgraded investment product-related systems to introduce a "one passbook, multiple funds" system. We enhanced our Fund Management System, a customer advisory support system, to offer market and high-quality fund information to help our customers make investment decisions.





**Credit Card** The credit card business posted an operating income of KRW 214 billion and net income of KRW 183 billion in 2008 as we focused on customer retention and maintained our conservative approach to risk management, aiming to achieve stable and sustainable growth.

With extensive systems and processes to analyze, validate, monitor, and improve the competitiveness and profitability of our products, we strive to maintain an optimal level of efficiency of the credit card portfolio. In 2008, our 'Platinum No. N' product strengthened our market-leading platinum card portfolio and provided a foundation for differentiated products that best suit the needs of our target customer segments. KEB's 'Woongjin payFree' product set the standard for successful alliance-based business models, including an innovative issuance process and diverse sales channels. To strengthen retention of our best customers we introduced innovative new features to our rewards programs.

In recognition of the fact that we have the best loyalty and profitability from individuals who are both good card and retail banking customers, we emphasized many programs to enhance our cross-marketing efforts. We created the Card Sales Synergy Team to more effectively promote bank products through the card sales network and card products through the retail branch network. KEB launched specialized new products for foreign nationals living in Korea in collaboration between the Card Bank and our Foreign Customer Marketing Department.

KEB is ensuring the proper return on the capital dedicated to each business, and the Card Bank is implementing enhanced risk-based pricing schemes. In the face of uncertain consumer credit performance, we will maintain our focus on retention of our best customers – those who we know the best – and continue to avoid simple growth-oriented policies.

# Quality Service through Efficient Systems & Process

1st Prize for 2008 Korean Service  
Quality Index from KMAC for the  
2nd consecutive year



KEB Customer Service Center  
won KS mark approval from the  
Korean Standards Association



---

Customers today expect not only competitive deposit and lending rates, but they demand fast and reliable answers to their questions, simple and clear transactions, and attentive responsiveness to their problems. • We strive to minimize the administrative burden on our front-line staff so that they can devote their attention to understanding customer needs and deepening our business relationships with them. • KEB has made efficient operational systems and processes a priority for several years, and was the first among Korean banks to implement a Process Management System (PMS) and Six Sigma approaches in the key areas of our customer service operations to fulfill these objectives.

---



**Enhanced Service Quality through Business Innovation** To improve service quality from the customers' viewpoint and enhance work productivity, KEB was the first Korean bank to adopt a six sigma program. We implemented disciplined process management initiatives throughout our centralized servicing operations that produce detailed, real-time measurements of the effectiveness of our processes.

In early 2008, we launched our unique "KEB Service Quality Guarantee" system, a reflection of the complete confidence we have in our unrivalled level of customer service quality. Under this new program, we offer loan customers an approval timing guarantee and a loan execution timing guarantee. Loan customers are notified of the loan approval decision within four hours of the application, and loan funding is guaranteed to take place at the date and time specified by the customer.

Through our process innovation approach, we have generated a dramatic reduction in the workload of branch staff as basic administrative processes are automated and concentrated to central processing centers, freeing staff to focus on customer management activities.

The system has also contributed to improving the consistency and excellence of our service quality and has been a major factor in KEB becoming the grand prize winner of "The Best Korea E-Financial Business Award" from Korea Economic Daily in July 2008. In addition, KEB's Customer Service Center was deemed the "Best Call Center in Korea" in a survey of the Korean Service Quality Index (KSQI) conducted by Korea Management Association Consulting (KMAC) for the 2nd consecutive year in March 2008. In September 2008, KEB's Customer Service Center won "KS mark" approval from the Korean Standards Association in recognition of meeting national standards, the first such recognition in the Korean banking industry.

**e-Business** Continuing the multi-year trend, an increasingly large proportion of banking transactions are conducted outside the branch through our diverse electronic banking services, from internet banking to telebanking and mobile banking. To meet customers' changing needs, we are continuing to develop new products and services as well as working to improve the accessibility of our existing services.

The In-House Banking service we launched in 2007 has attracted more than 150 demanding large corporations such as Korean Air, KT&G and SKC. The service, which is installed on the customers' own network and links to the customers' ERP system, allows customers to conduct all of their banking transactions and offers customizable internal control and account management features.

For mid-size corporate customers with diverse financial transaction needs, we provide a specialized "Business Online" portal as well as firm banking services that allows customers to directly connect to the bank's server to conduct large numbers of transactions securely and quickly. Through our upgraded internet banking services, along with mobile banking services, telebanking services and FXKEB, our foreign exchange portal, KEB is providing convenient electronic banking services that meet the needs of our customers.



-



**IT Infrastructure** Information Technology is at the heart of the bank's operating processes and decision systems, and KEB invests heavily to ensure that our bank has the most reliable and most effective systems environment to manage our business and support our customers.

-

Most importantly, in February 2008, we successfully completed the consolidation and relocation of our two separately operated bank data center and card data center to a new state-of-the-art data center. Through this major investment, we have created the best, most reliable and secure data center in the Korean banking industry – with a fully redundant back-up capability – and at the same time, established a more efficient IT operating and data management environment.

**Information Technology** KEB made continuous efforts in 2008 to improve the overall quality of IT services. Key projects enhanced the capabilities of our foreign exchange and e-business areas to maintain our competitive differentiation, including providing customers with automatic transfer and remittance services triggered by pre-established target exchange rates.

-

We developed multi-language screens (7 languages) for CD/ATMs and seven-language services for the Korean Dream Phone as part of efforts to provide differentiated KEB's capabilities for foreign customers.

-

IT improvement projects also focused on real-time monitoring and control enhancements to strengthen internal control to reduce operational risk in the rapidly changing financial environment.

-

Our IT priorities are aligned with our new business priorities, including new systems to support the expansion of our investment banking efforts under Korea's newly enacted Capital Market Consolidation Act and implementing our expanded banking and credit rating systems for our pending Chinese banking subsidiary.

-

Finally, the bank has well progressed our systems program to prepare for the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

# Highest Standards & Advanced Risk Management

---

With the growth and increased complexity of global financial markets, the Basel Committee of Bank for International Settlements issued the New Basel Capital Accord, or “Basel II,” with new requirements aimed at improving the consistency of capital regulations internationally. • In accordance with Basel II requirements, KEB successfully received regulatory approval to operate under Basel II's advanced approaches for risk measurement in 2008.

---



**Overview** With the quantitative and qualitative expansion of global financial markets, the Basel Committee of Bank for International Settlements issued the New Basel Capital Accord, or Basel II, with new requirements aimed at standardizing and strengthening the capital regulation standards internationally.

KEB executed a multi-year effort to meet the objectives of Basel II and has performed risk management on a global level utilizing our new risk management systems since January 2007. In 2008, the Financial Supervisory Service (FSS) approved KEB to operate under Basel II's advanced approaches for risk measurement – the Foundation Internal Ratings-Based Approach (F-IRB) for credit risk measurement, the Internal Model for market risk measurement, and the Advanced Measurement Approach (AMA) for operational risk measurement – by the FSS

**Capital Adequacy Framework** Since January 2007, KEB has calculated risk-weighted assets and internal risk capital requirements using the capital adequacy framework of the New Basel Capital Accord. The core feature of the framework is that banks separate quantifiable risks from non-quantifiable risks, and select and manage material risks. Quantifiable risks include credit risk, market risk, operational risk, interest rate risk, credit concentration risk, and strategic risk. Liquidity risk is a non-quantifiable risk, but is classified as a material risk.

The Basel II's advanced approach calls for the Advanced Internal Ratings-Based (A-IRB) approach in determining credit risk, the Internal Model to measure market risk, and the Advanced Measurement Approach (AMA) for calculating operational risk, and sets the confidence level at 99.9%. The bank has also set an additional capital buffer of at least 8% of risk volume, and a correlation matrix for integrating various risks volume has been introduced.

**Credit Risk** Since 2007, for operational purposes KEB has measured credit risk using the A-IRB approach under Basel II and the measured credit risk volume is used in setting and managing risk limits. Credit risk assessments include the systems such as rating systems, estimation of probability of default (PD) and loss given default (LGD), and the retail Credit Scoring System (CSS) for calculating calibrated credit risk. The Risk Based Pricing system that reflects expected loss (EL) and unexpected loss (UL) in loan pricing by using the risk data is established and operated.

Since the second half of 2007, KEB has implemented the risk-adjusted performance measurement (RAPM) in each business unit by adopting the risk-adjusted return on capital (RAROC) as an index. Since the first half of 2008, RAPM is reflected in target setting and performance evaluation of business unit and is also reflected to all branches in 2009.

Since September 2008, KEB's regulatory BIS ratio has been calculated using the F-IRB approach under Basel II following approval by the FSS.

**Market Risk** KEB implemented the Basel Committee's recommendation by refining our market risk internal model. The risk volume measured by the model is reflected in setting our risk-limits. Particularly since 2007, it has been reflected in our RAROC index with targets set and performance managed on a divisional basis in the same manner as we do for credit risk volume.





To manage market risk, KEB monitors the 10-day Value at Risk (VaR) and manages compliance limits by business unit. We assess the validity of the model using the daily back-testing results which come from daily P/L and 1-day VaR of the previous day. KEB also conducts stress tests, which measures possible losses under various scenarios, on a daily basis in order to be better prepared for some possible crises not reflected in recent market factors.

—  
In 2008, KEB received approval from the FSS for the use of its internal model and has since used the model for calculation and management of regulatory capital.

**Operational Risk** From 2007, KEB has implemented operational risk limits based on AMA methodologies. For internal control and risk volume measurement of operational risk, we conducted Basel II AMA-based Control Self-Assessment at our headquarters, domestic and overseas branches and subsidiaries in the first and second half of 2008. And after AMA-based loss data collection and scenario assessment, AMA-based operational risk volume is calculated.

—  
From 2008, AMA-based operational risk volume is measured by business units and 2% of operational risk volume is reflected in RAROC of business units.

—  
We have established an Internal Control Council under the lead of the Compliance Department to strengthen internal control and the members of the council are the heads of operational risk, compliance, audit & examination and finance department.

**Interest Risk** Currently, KEB is using the advanced deterministic VaR calculation method since the development of our new system in 2007. We utilize the full valuation method incorporating current value of assets and liabilities in measuring interest rate risk by deterministic interest rate scenarios. Interest rate risk volume is managed from an economic value perspective by VaR to estimate the maximum expected loss incurred from interest rate changes.

—  
From an earnings perspective, from 2008, we managed Earning at Risk (EaR) to estimate the maximum expected loss of the bank's net interest income from an interest rate change.

**Liquidity Risk** From 2007, KEB implemented an enhanced daily liquidity risk monitoring system. Additionally, a customer behavior model was developed for more advanced forecasting of effective asset and liability maturities.

—  
Finally, to ensure that KEB copes effectively with any potential liquidity crisis with rapid response measures, we created multi-level Liquidity Contingency Plans for both Korean won and foreign currency and continue to update them as necessary in response to evolving market conditions.

**Strategic Risk** KEB has defined and calculated strategic risk business risk since 2007. Strategic risk volume is measured by volatility of the deviation of actual operating income compared to expected operating income estimates. Strategic risk limits are established and managed.

# Transparent Corporate Culture & Foundation for Sharing

KEB Foundation received the  
"2008 Korea Sharing  
Management Grand Prize."



---

KEB has a responsibility to its employees, customers and shareholders. • We honor this commitment through internal controls to ensure the highest standards of ethical and transparent management. We have implemented an Ombudsman system, an extensive cadre of compliance officers, and other programs that help to instill corporate pride, earn public trust and enhance our reputation. • Through the KEB Foundation, the Korean financial industry's flagship charitable organization, KEB volunteers perform a wide range of activities to assist society's most needy and neglected members, build homes for the homeless, support the arts, and provide relief to those struck by disaster in communities where we operate, both at home and overseas.

---



“

**Thanks to the full independence of the Ombudsman and the confidentiality guaranteed to whistleblowers, this system provides a safe channel for KEB staff to raise questions that will improve bank operations.**

”

The men and women of KEB understand that the reputation of our bank depends on the integrity of our operations and the high standard of ethical behavior & mentality of our staff. To protect the bank and our customers, employees, and shareholders, KEB pursues transparency in business management through a comprehensive internal control system.

—

As part of measures to strengthen internal oversight and compliance, KEB has been strengthening the Chief Compliance Manager system. Based on their extensive bank experience, Chief Compliance Managers visited branches and provided training on compliance and business ethics to raise the compliance and ethical mindset. They also made substantial contributions to preventing financial accidents by engaging in relevant prevention activities.

—

For the first time in the Korean banking industry, several years ago, KEB implemented an independent Ombudsman system. The goal of the system is to promote the participation of our employees in the process of identifying and elevating issues or concerns. Because the Ombudsman is totally independent, the system provides a safe channel for staff to raise questions and protects the confidentiality of whistle blowers.

In 2008, KEB became the first in Korea to employ an advanced Anti-Money Laundering (AML) monitoring system following a multi-year development program. The system considers the money laundering risk level of the customer, the correspondent, and the transaction type, among other factors. KEB aims to maintain world-class controls to effectively prevent illegal transactions and conform to international standards. This effort, combined with our Enhanced Customer Due Diligence (EDD) work, earned KEB recognition as an “Outstanding Organization in Preventing Money Laundering” by the Financial Services Commission in November 2008.



KEB clearly understands the importance of a company's social responsibilities. KEB created the Korean banking industry's first non-profit foundation, the KEB Foundation, in December 2005. Since then, we have been conducting more systematic, sustained, and professional activities. Although it has a short history, the KEB Foundation disbursed a total of KRW 6 billion during the last four years, which was used to engage in various activities to help neighbors in need.

#### **(1) Support for the marginalized**

To help children in need, KEB performed various activities, including Christmas events for disabled children with Holt Children's Services. We also financed and took part in hiking and nature tours at Korea's Jiri and Halla mountains and Jeju Island for children from local children's centers. We co-sponsored an essay contest for orphans with the Korea Welfare Foundation, with scholarships giving teenagers dreams and hopes. Another meaningful event was inviting them to tour Goryeo historical sites in China as well as historical sites in Kyushu an event that also fostered the patriotic spirit of the youth.

By joining hands with renowned NPOs in Korea, such as World Vision, Korea Food for the Hungry International, and Leftovers Love Sharing Community, KEB carried out a project involved with establishing 1:1 sponsorship ties with underprivileged children at home and abroad. As a result, KEB employees provide KRW 19 million a month for 761 children in need (KRW 228 million a year).

In terms of projects designed to help low-income families, KEB provided KRW 100 million a year to the 'social safety net' project organized by the Jung-gu Office in Seoul for three years from 2005 to 2007, thereby providing a helping hand to about 160 low-income households. At the end of 2008 and into January 2009, KEB delivered necessities, such as rice and Kimchi, to 87 households in need in the Jung-gu area, in connection with shops that have ties with KEB. We have also been providing free monthly meals to the homeless and the solitary elderly in the Seoul Station and Cheongnyangni area for the past four years, sharing rice cake soup on New Year's Day, and giving out gifts on special occasions. Every year since 2006, KEB has been supporting medical operation expenses at the Foreign Laborer Hospital, which is a free medical service organization for foreign workers. In 2008, KEB provided souvenirs for an event held for immigrant workers.

#### **(2) Support for multicultural families**

We are also steadily expanding multicultural family projects, in line with the number of foreigners residing in Korea reaching 1 million. In 2008, we expanded support projects by launching an essay contest on life in Korea for housewives of multicultural families, which KEB conducted jointly with Pearl S Buck International, as well as an essay contest on life in Korea in one's mother language for housewives of multicultural families that was jointly carried out with the Research Institute of Asian Women of Sookmyung Women's University.

Together with the Ministry for Health, Welfare and Family Affairs, we chose housewives from multicultural families to work as interpretation volunteers at local health care centers around the nation. The interpretation volunteers were given a chance to visit their families in their native country of Vietnam, Indonesia, Philippines, Mongolia, and China.





**(3) Support for local communities**

KEB also actively engages in volunteering activities for the local community. The ‘KEB Love Sharing Team,’ a volunteer team consisting of over 1,000 employees and their families, is steadily expanding its activities to include building houses for low-income families, in cooperation with the Habitat House-building Campaign Headquarters.

**(4) Scholarship program**

Since 1989, KEB had a ‘KEB scholarship’ program, which is currently operating under the KEB Foundation. From 2006 to 2008, we provided scholarships totaling KRW 460 million to high school and university students from low-income families. An overseas ‘KEB scholarship’ program was also established, through which scholarships of around KRW 200 million were given to 582 underprivileged university students from 2006 to 2008 in developing nations in South Asia where KEB branches are located, such as Vietnam, Indonesia, and Philippines. This program contributed to enhancing the reputation of KEB as well as Korea.

**(5) International relief program**

As a leading foreign exchange bank in Korea, KEB has an international relief program, which has provided support for victims of the earthquake in Pakistan, the tsunami in Indonesia, and floods and other natural disasters in Vietnam, Philippines, Bangladesh, and Myanmar. We also helped open ‘happy home schools’ for unfortunate children, provided scholarships for higher education, and supported the expansion of Ribo Elementary School building located in isolated areas in Indonesia.

—

Through our branch office in Arbil, Iraq and the Zaytun Division, we provided financial assistance for surgery and treatments to 13 persons, including six children in Iraq, a country torn by war and disease, who were suffering from hereditary heart disease in 2008.

—

To raise awareness and increase participation by KEB employees in social contribution activities, KEB holds a ‘bank-wide neighborhood helping’ campaign every New Year’s Day, Chuseok, and at the end of the year. The campaign is participated in by all branches across the nation. Through this campaign, we strive to establish a culture of sharing at the bank. We also carry out other welfare promotion projects, such as providing art education for children in need and inviting them to concerts or plays to present them with opportunities to enjoy culture.

—

To fund the various social contribution activities held domestically and internationally, KEB contributed KRW 2.3 billion and encouraged donations by its employees through the ‘Ten Angels of Love Movement’ and ‘1:1 sponsorship program.’ As of the end of 2008, around 2,186 employees pitched in to raise donations of KRW 516 million. Thanks to the active spirit of sharing demonstrated by the bank’s management and staff, KEB is performing a leading role in promoting a culture of sharing and setting standards for returning corporate profits to society.

—

As a result of such social contribution activities, KEB received from Kookmin Daily the “2008 Korea Sharing Management Grand Prize” in the international social contribution category. The activities of the KEB Foundation were also praised overseas.







# Financial Statements

40	Management Discussion & Analysis
52	Non-Consolidated Financial Statements
	- Independent Auditors' Report
53	Non-Consolidated Balance Sheets
54	Non-Consolidated Statements of Income
56	Non-Consolidated Statements of Appropriations of Retained Earnings
57	Non-Consolidated Statements of Changes In Shareholders' Equity
58	Non-Consolidated Statements of Cash Flows
60	Notes to Non-Consolidated Financial Statements
117	Independent Accountants' Review Report on Internal Accounting Control System ("IACS")
118	Evaluation Report on the Effectiveness of Internal Accounting Management System by the Internal Accounting Manager
119	Consolidated Financial Statements
	- Independent Auditors' Report
120	Consolidated Balance Sheets
121	Consolidated Statements of Income
123	Consolidated Statement of Changes in Shareholders' Equity
124	Consolidated Statements of Cash Flows
126	Notes to Consolidated Financial Statements

## 1. Key Financial Data

	In billions of KRW		
	2008	2007	Y o Y
<b>Operating Results</b>			
Total Income	3,018.6	2,720.6	+10.95%
Net Interest Income	2,238.1	1,886.6	+18.63%
Fees & Commissions	562.8	581.2	-3.16%
Non Interest Income	217.6	252.8	-13.93%
Total Expenses (G&A)	1,145.3	1,092.2	+4.86%
Operating Income	1,873.2	1,628.4	+15.03%
Net Income	782.6	960.9	-18.56%
<b>Profitability Indices</b>			
Net Interest Margin (NIM)	2.90%	3.23%	-0.33%
Return on Assets	0.83%	1.29%	-0.46%p
Return on Equity	11.90%	15.05%	-3.15%p
<b>Balance Sheet Data at Year-End (inclg. Trust Account)</b>			
Total Assets	114,351.9	97,924.7	+16.78%
Total Credits	70,945.7	58,722.0	+20.82%
Total Deposits	67,933.1	59,755.4	+13.69%
<b>Asset Quality</b>			
NPL Ratio	1.09%	0.61%	+0.48%p
NPL Coverage Ratio	141.5%	203.5%	-62.0%p
Precautionary & Below Ratio	2.10%	1.21%	+0.89%p
Pre & Bel. Coverage Ratio	73.6%	102.9%	-29.3%p
Delinquency Ratio	0.92%	0.56%	+0.36%p
<b>Capital Adequacy</b>			
BIS Ratio (2007: Basel I, 2008: Basel II basis)	12.65%	11.44%	+1.21%p
Tier I Ratio	8.82%	8.65%	+0.17%p
Tier II Ratio	3.82%	2.79%	+1.03%p

## 2. Overview

The year 2008 marked the start of an unprecedented economic downturn in both domestic and international markets as the global financial crisis continued to gather momentum. Although KEB did showcase strong operating performance in the first half of the year, increasing volatility in domestic and international markets and the accelerating economic downturn had its effect on our performance starting in the third quarter. Despite these difficulties, KEB generated a net income of KRW 782.6 billion in 2008 and the bank's Board of Directors declared a dividend of KRW 125 per share.

KEB maintained a very strong capital position even after reflecting the dividend payout, with a BIS capital ratio of 12.65% (Basel II basis).

Despite the difficult economic environment, KEB has been able to maintain adequate asset quality. However, as the decline in asset quality accelerated in the fourth quarter, management of credit risk is on the top of the agenda for KEB. As of the end of 2008, the NPL ratio had risen to 1.09% and the delinquency ratio to 0.92%.

## 3. Profitability

### 1) Summary of Profitability

–

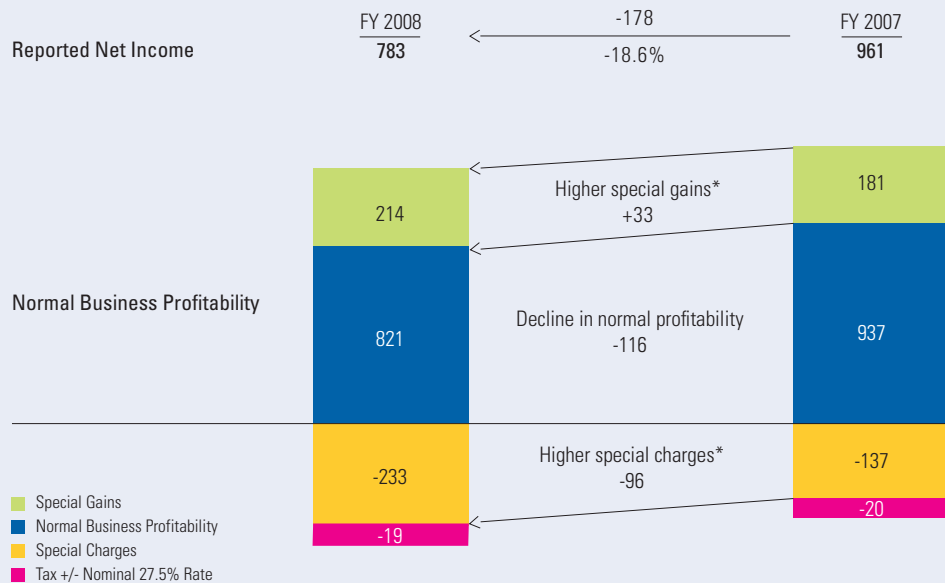
Despite a strong operating performance in 2008, the jump in loan loss provisioning led to a lower net income of KRW 782.6 billion in 2008, down 18.6% from the previous year. Operating income rose 15.0% on the back of stable asset growth and increases in gains from foreign exchange transactions and foreign currency related fees as well as increases in the merchant banking and trading profit. However, the sharp rise in loan loss provisioning, which came from an increase in normal assets (effect of KRW 18 billion increase in provisioning) and the deterioration in the domestic and international business environment (effect of KRW 390 billion increase in provisioning after recoveries), led to a decline in net income (refer to Appendix 1). Given the current difficult environment, the bank's profitability indicators – the ROA and ROE – declined to 0.83% and 11.90%, respectively.

In billions of KRW

	FY 2008															FY 2007		
				4Q			3Q			2Q			1Q					
	Bank	Card		Bank	Card		Bank	Card		Bank	Card		Bank	Card		Bank	Card	
Net Interest Income	2,238.1	1,789.7	448.3	685.1	569.1	115.9	540.5	427.0	113.5	508.7	396.7	112.1	503.8	397.0	106.8	1,886.6	1,442.5	444.1
Fees & Commissions	562.8	722.3	-159.5	148.5	191.0	-42.6	128.8	169.8	-41.0	151.5	190.5	-38.9	134.1	171.0	-36.9	581.2	726.3	-145.1
Non Interest Income	217.6	211.0	6.6	2.3	-1.7	4.0	82.2	80.5	1.7	73.8	77.6	-3.8	59.2	54.5	4.7	252.8	244.8	8.0
Total Income	3,018.6	2,723.0	295.5	835.9	758.5	77.3	751.4	677.2	74.2	734.1	664.7	69.4	697.1	622.6	74.6	2,720.6	2,413.6	307.0
Total Expenses (-)	1,145.3	1,063.8	81.6	268.8	250.7	18.1	308.7	285.5	23.2	273.0	255.1	17.9	294.8	272.4	22.4	1,092.2	1,008.2	84.0
Operating Income	1,873.2	1,659.3	213.9	567.1	507.8	59.3	442.7	391.7	51.0	461.1	409.6	51.5	402.3	350.2	52.1	1,628.4	1,405.4	223.0
Impairment Loss, etc. (-)	-90.7	-82.4	-8.2	-42.8	-41.7	-1.1	-10.2	-7.1	-3.1	16.8	17.8	-1.0	-54.5	-51.5	-3.0	-207.6	-197.0	-10.6
Income before Provision	1,963.8	1,741.7	222.1	609.8	549.4	60.4	452.9	398.8	54.1	444.3	391.8	52.5	456.8	401.7	55.1	1,836.0	1,602.4	233.6
Provision & Others (-)	796.4	757.4	39.0	366.3	356.1	10.2	240.2	232.2	8.0	109.8	99.2	10.7	80.0	69.9	10.1	319.4	284.3	35.2
Loan Loss Provision	726.9	695.2	31.7	335.9	321.5	14.4	193.0	185.1	7.9	117.9	111.8	6.1	80.1	76.8	3.3	318.7	304.5	14.3
Other Provision	22.6	17.8	4.8	19.6	24.2	-4.6	26.5	27.5	-1.0	-18.1	-22.2	4.1	-5.4	-11.7	6.3	-56.7	-74.2	17.5
Income before Tax	1,167.5	984.3	183.2	243.5	193.3	50.2	212.7	166.6	46.1	334.5	292.7	41.8	376.8	331.7	45.1	1,516.6	1,318.1	198.5
Income Tax Expense (-)	384.9	384.9	-	125.7	125.7	-	61.8	61.8	-	88.1	88.1	-	109.3	109.3	-	555.6	555.6	-
Net Income	782.6	599.4	183.2	117.9	67.7	50.2	150.9	104.8	46.1	246.4	204.6	41.8	267.4	222.4	45.1	960.9	762.5	198.5

Excluding special gains and charges, KEB's normal business profitability decreased by 12.4% to KRW 821 billion due to higher provisions in line with deteriorating asset quality.

In billions of KRW



\*The effect from bonus recognition timing is zero on an annual basis and was therefore excluded.

# Management Discussion & Analysis

Details of Special Items

In billions of KRW

		FY 2008	4Q	3Q	2Q	1Q	FY 2007
Special Gains*	Sale of debt-for-equity positions	-	-	-	-	-	79
	Reversal of impairment loss	4	-	-	-	4	7
	Recoveries/Sale of NPLs	42	-	42	-	-	30
	Retrieval from Non-Performing Asset Fund	46	46	-	-	-	26
	KEBCS-related legal penalty recovery	25	-	-	25	-	-
	Asset recognition of the shares of VISA Inc.	70	29	-	-	41	39
	Change in provision calculation method	10	-	10	-	-	-
	Interest on reserves held at BOK	17	17	-	-	-	-
Total		214	92	52	25	45	181
Special Charges*	Retroactive CBA payments /special bonus	16	-	-	16	-	11
	Regulatory reserve changes	-	-	-	-	-	61
	NTS tax assessment	-	-	-	-	-	27
	KEBCS-related legal penalty	-	-	-	-	-	25
	Return of dormant deposit	-	-	-	-	-	13
	Impairment loss (Hanmi Bank)	11	5	-	6	-	-
	Non-performing assets	155	77	78	-	-	-
	Reduction in DITA	51	51	-	-	-	-
Total		233	133	78	22	-	137

\*The effect from bonus recognition timing is zero on an annual basis and was therefore excluded.

## 2) Net Interest Income

-

Interest revenue in 2008 showed a 26.7% increase compared to the previous year, driven by an expansion in loan interest revenue, which rose 25.0% amid lending asset growth and disciplined profitability management. Interest expenses increased 38.1% year-on-year due to the increase in interest-bearing liabilities along with asset growth.

As a result, net interest income, defined as interest income minus interest expenses, rose 18.6% year-on-year.

In billions of KRW

	FY 2008	4Q	3Q	2Q	1Q	FY 2007	Y o Y
Interest Revenue	5,167.1	1,513.7	1,300.4	1,183.5	1,169.6	4,078.8	+26.7%
Income on due from banks	145.1	61.7	25.8	24.8	32.8	66.1	+119.4%
Interest on securities	459.9	130.7	117.0	112.7	99.4	373.8	+23.0%
Interest income on loans	4,517.6	1,299.6	1,149.0	1,038.4	1,030.5	3,612.6	+25.1%
Bank	3,924.9	1,142.7	999.5	894.2	888.5	3,053.6	+28.5%
Card	592.7	156.9	149.5	144.2	142.1	558.9	+6.0%
Others	44.6	21.7	8.5	7.5	6.8	26.2	+69.7%
Interest Expenses	2,854.6	850.6	724.8	643.9	635.3	2,066.6	+38.1%
Interest on deposits	1,780.6	539.3	446.6	396.4	398.4	1,251.5	+42.3%
Interest on borrowings	465.3	139.2	113.6	105.4	107.1	387.3	+20.2%
Interest on debentures	552.7	158.0	148.2	129.0	117.4	389.6	+41.9%
Others	56.0	14.1	16.4	13.0	12.5	38.3	+46.3%
Insurance expenses for deposits & Contribution for Credit Guarantee Fund (-)	141.9	38.1	35.8	34.3	33.6	126.4	+12.3%
Other Interest Income	67.4	60.1	0.7	3.5	3.1	0.8	F
Net Interest Income	2,238.1	685.1	540.5	508.7	503.8	1,886.6	+18.6%
Bank	1,789.8	569.1	427.0	396.7	397.0	1,442.5	+24.1%
Card	448.3	115.9	113.5	112.1	106.8	444.1	+0.9%

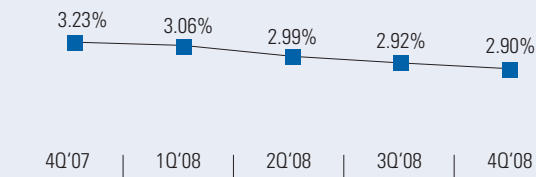


## 3) Net Interest Margin (NIM)

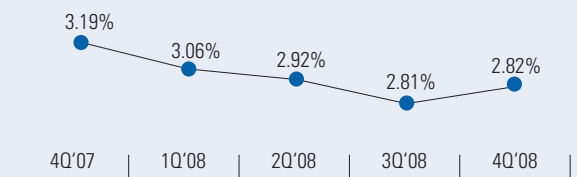
KEB's NIM for 2008 came to 2.90%, down 0.33%p from the previous year. Despite improved pricing within business lines, NIM fell due to a mix effect as there was an increase in the percentage of lower NIM/lower risk assets in the bank's interest bearing asset portfolio. On a quarterly basis, NIM fell steadily until the third quarter and stabilized around 2.8% in the fourth quarter.

Cumulative Basis	2008				2007				%
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q	
Net Interest Margin (NIM)	2.90	2.92	2.99	3.06	3.23	3.24	3.32	3.34	
NIM in KRW	3.64	3.64	3.69	3.76	3.84	3.85	3.93	3.92	
NIM in Foreign currency	1.07	1.01	0.95	0.90	1.20	1.21	1.30	1.45	
Loan to Deposit Spread in KRW (a-b)	2.75	2.74	2.77	2.86	3.10	3.12	3.19	3.20	
Interest rate on Loans in KRW (a)	7.19	7.07	7.03	7.09	6.62	6.54	6.53	6.46	
Interest rate paid on Deposits in KRW (b)	4.44	4.33	4.26	4.23	3.52	3.42	3.34	3.26	

NIM-Cumulative Basis



NIM-Quarterly Basis



## 4) Fees & Commissions

Fees & commissions continued to be a key component of total income for KEB.

Gains from foreign exchange transactions grew 21.2% year-on-year, helped by an increase in market volatility. Foreign currency related fees & commissions also increased 18.9%, mainly driven by efforts to expand export/import volume. KRW currency related fees & commissions fell 35.4% in 2008, year-on-year, from a growth trend in recent years. The decrease was mainly due to falling investment product sales as a result of the downturn in domestic and global stock markets.

		FY 2008					In billions of KRW	
			4Q	3Q	2Q	1Q	FY 2007	Y o Y
Bank	Gains from FX Transaction	303.4	91.3	70.1	75.4	66.5	250.3	+21.2%
	Fees & Commissions	419.1	99.8	99.7	115.1	104.5	475.9	-11.9%
	KRW currency-related	179.3	31.4	39.5	56.1	52.4	277.5	-35.4%
	Foreign currency-related	163.9	46.2	42.2	39.3	36.2	137.8	+18.9%
	Others	75.9	22.2	18.0	19.7	15.9	60.6	+25.1%
Subtotal		722.3	191.0	169.8	190.5	171.0	726.3	-2.1%
Card		-159.5	-42.6	-41.0	-38.9	-36.9	-145.1	U
Total		562.8	148.5	128.8	151.5	134.1	581.2	-3.2%

## 5) Non-Interest Income

-

Income from operating trust account increased 7.0% year-over-year. Merchant account showed a significant 101.0% increase, helped by an increase in volatility of the commercial paper market. Trading profit also increased 56.5% with a strong performance in foreign currency trading. However, valuation equity method on subsidiaries decreased 44.5% mainly due to losses from the Los Angeles subsidiary, which was incurred from bad loans in the fourth quarter.

In billions of KRW							
	FY 2008					FY 2007	Y o Y
		4Q	3Q	2Q	1Q		
Operating Trust Account	35.0	9.1	9.4	8.1	8.4	32.7	+7.0%
Merchant Account	36.5	11.3	7.6	7.4	10.2	18.2	+101.0%
Trading Profit	145.9	51.8	27.1	32.5	34.6	93.2	+56.5%
Valuation equity method	30.3	-30.2	22.3	22.4	15.8	54.6	-44.5%
Card sector	6.7	4.0	1.7	-3.8	4.7	8.0	-16.8%
NPL sales	-8.7	-14.5	1.2	4.6	-	5.0	U
Others	-28.2	-29.2	12.8	2.7	-14.5	43.3	-168.9%
Non -Interest Income	217.6	2.3	82.2	73.8	59.2	252.8	-13.9%

## 6) G&A Expenses

-

Personnel expenses showed only a small increase of 2.6% year-on-year as the bank froze salaries as part of efforts to overcome the current global financial turmoil.

Operating expenses increased 11.6% year-on-year due to one-time advertising and logo replacement costs associated with the introduction of the new corporate logo/image. The cost/income ratio (ratio of total expenses to total income) dropped 2.3%p to 37.9% as a result of the salary freeze.

In billions of KRW							
	FY 2008					FY 2007	Y o Y
		4Q	3Q	2Q	1Q		
Salaries & Benefits	661.1	119.8	184.5	165.0	191.8	644.1	+2.6%
Salaries	512.0	84.9	160.3	104.4	162.4	509.8	+0.4%
Employees benefits	149.1	34.9	24.1	60.6	29.4	134.4	+10.9%
Operating Expenses	317.7	95.9	82.4	71.7	67.6	284.7	+11.6%
Depreciation	119.4	35.5	29.1	28.1	26.8	126.2	-5.5%
Tax & Dues	47.2	17.6	12.7	8.3	8.6	37.0	+27.3%
Total Expenses	1,145.3	268.8	308.7	273.0	294.8	1,092.2	+4.9%
Bank	1,063.7	250.7	285.5	255.1	272.4	1,008.2	+5.5%
Card	81.6	18.1	23.2	17.9	22.4	84.0	-2.9%

## 7) Provisions, Tax Expenses, etc.

–

Loan loss provisioning increased to KRW 726.9 billion in 2008 from KRW 318.7 billion in 2007. The significant increase in provisioning came from various factors.

First, there was a KRW 18.2 billion increase in loan loss provisioning coming from an increase in normal assets as the bank saw large loan growth in 2008. The majority of the increase in loan loss provisioning, however, came from the decline in asset quality, which was responsible for KRW 390 billion (net amount after deducting for recoveries). Among them, KRW 131 billion was from several companies that went bankrupt due to unusual shocks in both the domestic and international markets in the third quarter. KRW 51 billion was set aside for companies that were selected in the first round of restructuring of the construction and shipbuilding industries. The restructuring, which was undertaken by creditor banks to weed out ailing companies, showed that KEB had relatively low exposure to problem companies. The remaining increase in provisioning came from higher SME delinquencies brought on by the economic downturn (refer to Appendix 1). Accordingly, KEB's credit cost (ratio of loan loss provisioning to total credits) jumped from 0.54% in 2007 to 1.02% in 2008.

In billions of KRW							
	FY 2008					FY 2007	Y o Y
		4Q	3Q	2Q	1Q		
Loan Loss Provisioning	726.9	335.9	193.0	117.9	80.1	318.7	+128.0%
<Bank>	695.2	321.5	185.1	111.8	76.8	304.7	+128.2%
Corporate	646.3	296.7	173.2	101.9	75.3	275.6	+134.8%
Household	47.9	24.8	11.9	9.8	1.4	29.0	+65.2%
<Card>	31.7	14.4	7.9	6.1	3.3	14.1	+124.7%
Other Provisioning, etc.	22.6	19.6	26.5	-18.1	-5.4	-56.7	U
Retirement Allowance	47.0	10.8	20.7	10.1	5.3	57.3	-18.1%
Total	796.4	366.3	240.2	109.8	80.0	319.4	+149.3%

## 4. Assets & Liabilities (Bank Account)

### 1) Assets

–

Total assets at the end of 2008 came to KRW 103.7 trillion, a 26.4% increase from KRW 82.0 trillion at the end of 2007.

Most of the increase of total assets came from loans and discounts, which totaled KRW 64.4 trillion at the end of 2008, up from KRW 54.1 trillion a year ago. Although loans and discounts sharply rose until the third quarter, strengthened risk management helped reduce loans in the fourth quarter as compared to third quarter.

In billions of KRW							
	2008.12	2008.09	2008.06	2008.03	2007.12	Y o Y	
Cash & Due from Banks	10,107.7	5,529.9	5,994.1	4,747.5	5,118.4	+97.5%	
Securities	12,112.6	10,953.7	10,489.1	11,087.5	9,773.4	+23.9%	
Loans & Discounts	64,412.3	66,265.5	59,108.7	56,799.9	54,055.4	+19.2%	
Credit Card Receivables	2,552.6	2,418.1	2,385.2	2,357.3	2,440.6	+4.6%	
Other Asset	13,712.6	16,019.9	14,147.8	14,209.5	9,724.0	+41.0%	
Merchant Banking Accounts	3,363.1	3,267.0	2,759.5	3,915.6	3,353.8	+0.3%	
Total Assets	103,708.3	102,035.9	92,499.2	90,760.0	82,024.9	+26.4%	

## 2) Liabilities

–

Along with the bank's asset growth, funding through deposit-taking, borrowings, and debenture issuance showed a corresponding increase. Deposits increased to KRW 56.4 trillion at the end of 2008 from KRW 44.4 trillion at the end of 2007, with KRW denominated deposits increasing to KRW 36.2 trillion from KRW 29.6 trillion. Borrowings increased by 35.0% year-over-year to KRW 12.0 trillion at the end of 2008. Debentures stood at KRW 10.8 trillion, an increase of 26.2%.

In billions of KRW

	2008.12	2008.09	2008.06	2008.03	2007.12	Y o Y
Deposits	56,397.4	49,523.6	44,913.5	42,941.1	44,431.0	+26.9%
Borrowings	11,958.8	13,595.5	12,512.8	11,389.8	8,858.1	+35.0%
Debentures	10,790.6	10,887.2	10,025.0	8,472.1	8,547.9	+26.2%
Other Liabilities	14,402.5	19,087.5	15,919.3	18,071.2	11,390.2	+26.4%
Merchant Banking Accounts	3,495.6	2,369.2	2,534.7	3,400.2	2,147.0	+62.8%
Shareholders' Equity	6,663.5	6,572.9	6,593.8	6,485.5	6,650.8	+0.2%
Liabilities & Shareholders' Equity	103,708.3	102,035.9	92,499.2	90,760.0	82,024.9	+26.4%

## 3) Shareholders' Equity

–

Total shareholders' equity increased by KRW 12.7 billion to KRW 6.7 trillion at the end of 2008 as most of the increase in retained earnings was offset by the decrease in capital adjustment.

The increase amount of retained earnings was KRW 375.0 billion, less than the amount of net income for 2008, reflecting dividend for 2007 of KRW 451 billion (KRW 700 per share), which was recognized in the first quarter of 2008.

On the other hand, capital adjustments fell by KRW 357.9 billion year-on-year. The decrease of KRW 779.8 billion in unrealized gains on investment securities such as the bank's holdings of debt-to-equity swapped stocks of Hynix and Hyundai E&C was partially offset by KRW 435.3 billion in gains from tangible assets revaluation (refer to Appendix 2), which was recognized in the fourth quarter of 2008.

In billions of KRW

	2008.12	2007.12	Y o Y
Paid-in Capital	3,224.5	3,224.5	-
Capital Surplus	0.9	0.9	-
Capital Adjustment	749.2	1,107.1	-357.9
Retained Earnings	2,693.3	2,318.3	+375.0
Total Shareholders' Equity	6,663.5	6,650.8	+12.7
Book value Per Share (BPS)	10,333.0	10,313.0	+20.0

## 5. Major Business Activities

### 1) Korean Won Currency Loans

–

KRW loans grew by 10.6% to KRW 44.5 trillion at the end of 2008 from KRW 40.3 trillion a year ago.

SME loans increased by KRW 1.5 trillion to KRW 20.7 trillion at the end of 2008, driven by focused customer segmentation marketing to high quality companies. Loans to large corporations increased by KRW 1.6 trillion to KRW 5.4 trillion, showing strong growth over the year due to limited opportunities for direct funding in the more volatile capital markets environment.

Loans to households increased by KRW 1.1 trillion to KRW 15.8 trillion at the end of 2008 with modest growth in high quality individual loans. Housing loans, which had been falling until the first half of 2008, rebounded slightly from the third quarter as the government eased real estate regulations in order to boost sluggish real estate markets. Credit card receivables showed a moderate increase of KRW 0.2 trillion to total KRW 2.6 trillion at the end of 2008.



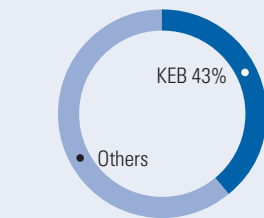
In billions of KRW

	2008.12	2008.09	2008.06	2008.03	2007.12	Y o Y
Household	15,762.5	15,557.1	14,899.5	14,538.8	14,723.7	+7.1%
Housing-related	8,197.8	8,099.9	7,936.3	7,966.0	8,242.4	-0.5%
Personal loans	7,564.7	7,457.2	6,963.2	6,572.8	6,481.3	+7.6%
Corporate	26,076.7	28,211.8	25,159.2	24,094.7	22,947.5	+13.6%
SMEs	20,707.6	21,956.6	20,592.6	19,980.9	19,157.6	+8.1%
Large Corp.	5,369.1	6,255.2	4,566.6	4,113.8	3,789.9	+41.7%
Public & others	129.7	132.4	208.8	198.6	154.8	-16.2%
Subtotal	41,968.9	43,901.3	40,267.4	38,832.1	37,826.0	+11.0%
Credit Card Receivables	2,552.6	2,418.1	2,385.2	2,357.3	2,440.6	+4.6%
Total	44,521.5	46,319.4	42,652.6	41,189.4	40,266.5	+10.6%

## 2) Foreign Exchange & Trade Finance

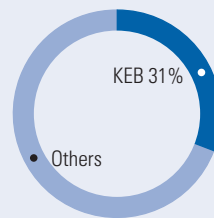
KEB maintained its leading position in foreign exchange and trade financing markets in 2008. In the foreign exchange market, the bank expanded its share by 3%p to cover 43% of transactions conducted by Korea's seven leading commercial banks. The bank also expanded its share in Korea's total export volume by 2%p to 31% and maintained its 29% share in import volume. KEB's continued efforts to enhance its expertise and brand power have helped maintain the bank's strong presence and leadership in the foreign exchange and trade market.

FX Market Share (%)



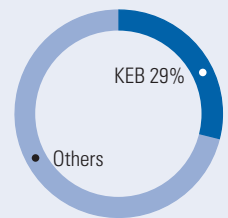
KEB Others

Export Market Share (%)



KEB Others

Import Market Share (%)



KEB Others

## 6. Asset Quality

### 1) Non-Performing Loans (NPLs)

Although both domestic and international economic turmoil led to a decline in the bank's asset quality from the third quarter, the bank's asset quality still remains adequate with the NPL ratio at the end of 2008 totaling 1.09%, up 0.48%p from 0.61% at the end of 2007.

As Korea is in the midst of an economic downturn, an overall increase in NPLs was inevitable. However, as can be seen from KEB's relatively small exposure to companies that were selected in the first round of restructuring in the construction and shipbuilding industries, uncontrolled large losses from a specific industry or company did not occur as it did back in the Asian financial crisis, due to the bank's strengthened risk management. However, the bank does expect continued upward pressure on NPLs in 2009, particularly in the SME sector.

In billions of KRW

	2008. 12		2008. 09		2008. 06		2008. 03		2007. 12	
		(EX. card)		(EX. card)		(EX. card)		(EX. card)		(EX. card)
Normal	69,454.7	66,974.6	73,455.6	71,102.5	63,967.2	61,644.0	60,601.9	58,306.7	58,009.8	55,631.7
Precautionary	716.0	675.2	501.9	468.2	378.2	346.6	317.5	285.4	351.9	317.8
Substandard	422.7	422.5	297.5	297.2	266.9	266.3	271.5	271.5	242.3	242.3
Doubtful	92.2	66.0	63.6	38.2	35.2	11.8	39.4	14.0	43.0	18.7
Estimated Loss	260.3	251.5	152.0	143.3	94.9	87.3	70.2	63.7	75.0	69.2
Total Credits	70,945.9	68,389.8	74,470.6	72,049.4	64,742.4	62,356.0	61,300.5	58,941.3	58,722.0	56,279.7
Substandard & Below (NPL) (%)	1.09%	1.08%	0.69%	0.66%	0.61%	0.59%	0.62%	0.59%	0.61%	0.59%
Precautionary & Below (%)	2.10%	2.07%	1.36%	1.31%	1.20%	1.14%	1.14%	1.08%	1.21%	1.15%
Loan Loss Reserve	1,097.1	1,026.9	973.1	906.8	803.6	739.8	747.7	683.8	733.0	668.4
NPL Coverage (%)	141.5%	138.8%	189.7%	189.4%	202.4%	202.5%	196.2%	195.8%	203.5%	202.4%
Precautionary & Below Coverage (%)	73.6%	72.6%	95.9%	95.8%	103.7%	103.9%	107.0%	107.8%	102.9%	103.2%

## 2) Delinquency

–

The delinquency ratio also increased to 0.92% at the end of 2008 from 0.56% at the end of 2007.

Reported Basis	2008.12	2008.09	2008.06	2008.03	2007.12	Y o Y
Bank	0.86%	0.54%	0.50%	0.59%	0.49%	+0.37%p
Household	0.42%	0.29%	0.26%	0.36%	0.34%	+0.07%p
SME	1.54%	1.07%	0.95%	1.06%	0.87%	+0.67%p
Large Corp./Others	0.30%	0.04%	0.04%	0.07%	0.04%	+0.26%p
Card	2.36%	2.20%	2.03%	2.05%	1.92%	+0.44%p
Normal book	2.33%	2.17%	2.01%	2.01%	1.88%	+0.45%p
Re-aged book	13.14%	11.96%	10.13%	10.32%	10.77%	+2.37%p
Total Delinquency Ratio	0.92%	0.60%	0.57%	0.65%	0.56%	+0.37%p

## 3) Strict Risk Exposure Management – Minimal Exposure to US Mortgage Assets

–

Indicative of KEB's strict risk exposure management is the bank's minimal exposure to US mortgage assets amidst the recent turmoil in global financial market caused by problems in US sub-prime mortgage market.

The bank has no direct holdings of US mortgages and US mortgage-backed securities. Indirect exposure to sub/mid prime mortgage through collateralized debt obligations (CDOs) was USD 1.3 million, which was only 2.8% of USD 45.0 million in total CDO holdings at the end of 2008. The bank has no exposure through credit default swaps.

Details of exposures to Collateralized Debt Obligations (CDO)

In millions of USD

Purchase Month	Credit Rating	Investment	Maturity	Sub-prime + Mid-prime Ratio (amount)	Valuation (Dec 31, 07)	Valuation Loss	
						CDO	Sub/Mid
Apr-2006	AAA (US Treasury)	5.00	Mar-2016	2.5% (0.12)	4.46	0.54	0.12
May-2006	BB	20.00	Apr-2011	-	14.60	5.40	-
Mar-2007	AAA (Freddie Mac)	20.00	Sep-2015	5.7% (1.14)	16.74	3.26	1.14
Total		45.00		2.8% (1.26)	35.80	9.20	1.26

Net valuation of total CDO loss = USD 9.2 million as of end-Dec. 2008

(Net valuation loss of Sub/Mid-prime = USD 1.26 million)

## 7. Dividend & Capital Adequacy

### 1) Dividend

–

In a step consistent with the difficult financial environment, the bank's Board of Directors agreed to substantially reduce its dividend to KRW 125 per share, down more than 80% from last year's level. This preserves a meaningful amount of core capital for KEB.

### 2) BIS Capital Adequacy Ratio

–

KEB ended the year with a healthy total capital adequacy level of 12.65% (Basel III basis). More importantly, the bank's Tier I capital ratio climbed to 8.82% with a reduction in risk weighted assets. The bank's supplemental capital ratio (Tier II ) also increased to 3.82% helped by the issuance of KRW 800 billion in KRW subordinate debt during the fourth quarter and a revaluation of the bank's fixed assets in connection with the upcoming conversion to International Financial Reporting Standards (IFRS).

BIS Capital Adequacy Ratio under Basel III basis

In billions of KRW

<b>Risk Weighted Assets (FIRB)</b>	<b>66,616.2</b>
Credit	60,793.7
Market	705.2
Operation	5,117.3
<b>BIS Capital</b>	<b>8,425.6</b>
<b>Tier I</b>	<b>5,878.8</b>
Capital	3,224.5
Capital Surplus	0.9
Retained Earnings	2,711.8
Hybrid Debentures	250.0
Other	1.8
Deduction Items 1 (-)	297.6
Goodwill (-)	0.0
Other Intangible Assets (-)	66.5
Deferred Income Tax Assets (-)	80.6
Valuation Loss on Investment Securities (-)	29.3
Other	121.2
Deduction Items 2 (-)	12.6
<b>Tier II</b>	<b>2,546.8</b>
45% of Evaluation Gain on Investment Securities	184.5
Loan Loss Provisioning for Normal & Precautionary Assets	255.6
Subordinated Debts	1,727.3
Deduction Items 2 (-)	12.6
<b>BIS ratio</b>	<b>12.65%</b>
<b>Tier I ratio</b>	<b>8.82%</b>
<b>Tier II ratio</b>	<b>3.82%</b>

### Appendix 1 Increase in Loan Loss Provisions

#### Increase in provisions reflect loan asset growth and SME delinquencies

In billions of KRW

	FY 2007	FY 2008	Change	Net Income Effect Y o Y
Loan loss provisioning (a)	318.7	726.9	+408.2	↓ 296
		103.9	+18.2	↓ 13
Causes				
Normal Asset growth	85.7	816.9	+430.5	
Asset quality change	386.4			↓ 283
Recoveries	-153.4	-193.9	-40.5	
Total credits (b)	58,722	70,946		
Net provisions/total credits (a/b)	0.54%	1.02%		

#### Causes of loan loss provisioning increase

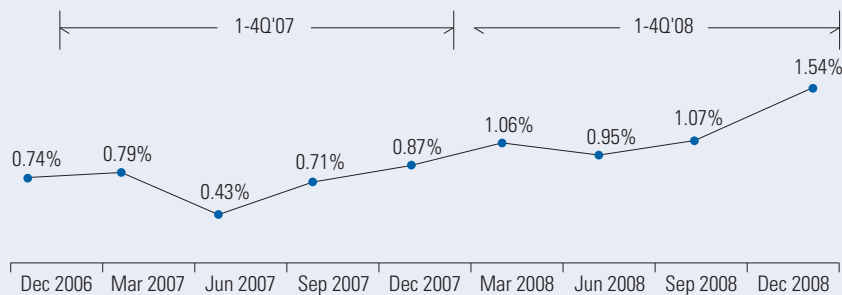
Growth of normal assets: +18bn

- Asset increase: +18.2bn (2.1tr X 0.85%)
- FX rate effect: +7.6bn

Asset quality change: +390bn (net amount after deduction for recoveries)

- NPL ratio: 1.09%, +48bp YoY
- Affected by financial turmoil (Lehman, Taesan LCD, Kyungu Steel, IDH): 131bn
- 4Q'08 workout construction companies: 51bn
- Affected by the increase in SME delinquencies

#### SME Delinquency Ratio





## Appendix 2 Tangible Assets Revaluation

### 1. Tangible Assets Revaluation

- Revaluation of assets authorized by the FSC starting FY2008
- 70% of tangible assets revaluation gain → Approved as supplementary capital (newly established)  
vs. 100% of tangible assets revaluation loss → Included in net income (existing rule)

### 2. Effect on Financial Statements: Tangible assets +532.8bn, Deferred income tax liabilities (DITL) +117.2bn, Accumulated other comprehensive income (AOCI): valuation gain +435.3bn, Net income -19.7bn

Revaluation gain 558.1bn	B/S	Tangible assets	+558.1bn	Tangible assets +532.8bn
		DITL	+122.8bn(=558.1bn X 22%)	
		AOCI (valuation gain)	+435.3bn	
Revaluation loss 25.3bn	B/S	Tangible assets	-25.3bn	DITL +117.2bn
		DITA	+5.6bn(=25.3bn X 22%)	
	I/S	Valuation loss	-25.3bn	Net income -19.7bn
		Deferred tax income	+5.6bn(=25.3bn X 22%)	

### 3. Effect on BIS Ratio

	Amount	Effect on BIS ratio	Comments
Capital	+312.9bn	+0.47%p	-
Tier I	+8.2bn	+0.01%p	· New 117.2bn DITL offset existing 27.9bn DITL (core capital deduction item) → Core capital +27.9bn, remaining DITL 89.3bn
Tier II	+304.7bn	+0.46%p	· Net income -19.7bn → Core capital -19.7bn
RWA	+532.8bn	-0.10%p	· Recognize 70% of revaluation gain (after tax): 304.7bn (=435.3bn X 70%)
Overall effect on BIS ratio		+0.37%p	· Overall effect from change in capital and assets: Tier I ratio-0.06%p, Tier II Capital +0.43%p

# Non-Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

## Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of Korea Exchange Bank (the "Bank") as of December 31, 2008 and 2007, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2008 and 2007, and the results of its operations, changes in its retained earnings and its shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we drew attention to the following:

As discussed in Note 8 to the non-consolidated financial statements, the Bank adopted the amendment to the Statement of Korea Accounting Standards ("SKAS") No. 5 "Property, Plant and Equipment", which permits certain items of its land to be revalued after acquisition date, applying the revaluation models permitted under SKAS No. 5. As a result of this adoption, the book value of the land and net assets increased by ₩532,778 million and ₩415,567 million, respectively, as of December 31, 2008.

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



Deloitte Anjin LLC  
Seoul, Korea  
March 12, 2009

### Notice to Readers

This report is effective as of March 12, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

# Non-Consolidated Balance Sheets

53

KOREA EXCHANGE BANK (BANKING ACCOUNT) as of December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
<b>ASSETS</b>		
Cash and due from banks (Notes 3, 18, 19, 24 and 29)	₩ 10,107,706	₩ 5,118,391
Securities (Notes 4, 17, 18, 19, 23 and 29)	12,112,577	9,773,435
Loans (Notes 5, 6, 7, 17, 18, 19, 23 and 24)	64,412,277	54,055,379
Tangible assets (Note 8)	1,427,218	876,864
Other assets (Notes 9, 17 and 24)	12,285,386	8,847,087
Merchant banking account assets (Notes 10 and 18)	3,363,112	3,353,761
	₩ 103,708,276	₩ 82,024,917
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
LIABILITIES:		
Deposits (Notes 11, 18, 19 and 24)	₩ 56,397,357	₩ 44,430,991
Borrowings (Notes 12, 18, 19 and 24)	22,749,312	17,405,954
Other liabilities (Notes 2, 13, 16, 17, 18, 21 and 24)	14,402,472	11,390,209
Merchant banking account liabilities (Note 14)	3,495,617	2,146,964
	97,044,758	75,374,118
SHAREHOLDERS' EQUITY (Notes 4, 8, 15, 17 and 21):		
Common stock	3,224,534	3,224,534
Capital surplus	940	940
Capital adjustments	(4,425)	(5,722)
Accumulated other comprehensive income	749,201	1,090,015
Retained earnings	2,693,268	2,341,032
	6,663,518	6,650,799
	₩ 103,708,276	₩ 82,024,917

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Income

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	(In millions of won, except per share amounts)	
	2008	2007
<b>OPERATING REVENUES:</b>		
Interest income (Notes 2, 19 and 24):		
Interest on due from banks	₩ 145,086	₩ 66,138
Interest on trading securities	29,482	71,335
Interest on available-for-sale securities	287,410	216,660
Interest on held-to-maturity securities	142,952	85,845
Interest on loans	4,517,574	3,612,561
Other interest income	25,945	26,248
	5,148,449	4,078,787
Gain on valuation and disposal of securities (Note 4):		
Gain on valuation of trading securities	12,466	405
Gain on disposal of trading securities	42,210	91,773
Reversal of impairment loss on available-for-sale securities	32,758	92,980
Gain on disposal of available-for-sale securities	93,555	139,421
	180,989	324,579
Gain on valuation and disposal of loans:		
Gain on disposal of loans (Note 5)	11,551	11,920
Foreign exchange trading income	2,567,115	929,204
Gain on trading and valuation of derivatives (Notes 17 and 19)	13,986,684	2,611,234
Commission income (Notes 19 and 24)	500,112	546,565
Dividends income (Note 19)	75,179	7,113
Other operating revenue (Notes 10, 19 and 25)	260,411	253,265
Total operating revenues	22,730,490	8,762,667
<b>OPERATING EXPENSES:</b>		
Interest expenses (Notes 19 and 24):		
Interest on deposits	1,780,589	1,251,465
Interest on borrowings	1,018,046	776,855
Other interest expenses	56,032	38,263
	2,854,667	2,066,583
Loss on valuation and disposal of securities (Note 4):		
Loss on valuation of trading securities	6,892	6,515
Loss on disposal of trading securities	44,598	62,175
Impairment loss on available-for-sale securities	32,734	22,478
Loss on disposal of available-for-sale securities	1,270	4,913
	85,494	96,081
Loss on valuation and disposal of loans:		
Provision for possible loan losses (Note 7)	719,840	307,042
Loss on disposal of loans (Notes 5 and 17)	26,034	7,247
	745,874	314,289

See accompanying notes to non-consolidated financial statements.



# Non-Consolidated Statements of Income (Continued)

55

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

(In millions of won, except per share amounts)			
	2008		2007
Foreign exchange trading losses	₩ 2,470,846	₩	626,040
Loss on trading and valuation of derivatives (Notes 12, 17 and 19)	13,645,121		2,599,923
Commission expenses (Notes 19 and 24)	240,984		215,718
General and administrative expenses (Notes 19, 24 and 26)	1,192,242		1,149,511
Other operating expenses (Notes 14 and 19)	341,432		282,876
Total operating expenses	21,576,660		7,351,021
OPERATING INCOME	1,153,830		1,411,646
NON-OPERATING INCOME (Notes 4 and 20)	124,550		139,041
NON-OPERATING EXPENSES (Notes 4, 8 and 20)	110,890		34,098
INCOME BEFORE INCOME TAX	1,167,490		1,516,589
INCOME TAX EXPENSE (Note 21)	384,872		555,644
NET INCOME (Note 23)	₩ 782,618	₩	960,945
BASIC NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,214	₩	1,490
DILUTED NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,214	₩	1,490

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Appropriations of Retained Earnings

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	(In millions of won, except per share amounts)	
	2008	2007
<b>RETAINED EARNINGS BEFORE APPROPRIATIONS:</b>		
Beginning of the year	₩ 1,557,599	₩ 1,121,941
Accumulated effect of revision of accounting policies	-	22,820
Adjustments using the equity method	1,233	-
Net income	782,618	960,945
	2,341,450	2,105,706
<b>TRANSFER FROM VOLUNTARY RESERVES:</b>		
Other reserve	2,857	-
<b>APPROPRIATIONS:</b>		
Legal reserve (Note 17)	78,300	96,100
Other reserve	1,100	572
Capital adjustments (Valuation of securities using the equity method of overseas subsidiaries below zero)	4,425	-
Dividends	80,613	451,435
(Cash dividends (Note 28)		
Dividends per share (rate):		
₩ 125 (2.5%) at 2008		
₩ 700 (14%) at 2007]		
	164,438	548,107
<b>UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>	₩ 2,179,869	₩ 1,557,599

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Changes In Shareholders' Equity

57

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	(In millions of won)					
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of January 1, 2007	₩ 3,224,534	₩ 940	₩ 18,862	₩ 1,134,965	₩ 1,999,864	₩ 6,379,165
Cumulative effect of accounting changes	-	-	(5,722)	(17,098)	22,820	-
Balance after adjustments	3,224,534	940	13,140	1,117,867	2,022,684	6,379,165
Dividend	-	-	-	-	(644,907)	(644,907)
Balance after appropriations	3,224,534	940	13,140	1,117,867	1,377,777	5,734,258
Changes in accounting estimation	-	-	(18,862)	-	-	(18,862)
Net income	-	-	-	-	960,945	960,945
Effect of exchange rate fluctuations for overseas branches	-	-	-	-	2,310	2,310
Valuation of available-for-sale securities	-	-	-	(29,191)	-	(29,191)
Valuation of held-to-maturity securities	-	-	-	410	-	410
Valuation of securities using the equity method	-	-	-	929	-	929
As of December 31, 2007	₩ 3,224,534	₩ 940	₩ (5,722)	₩ 1,090,015	₩ 2,341,032	₩ 6,650,799
As of January 1, 2008	₩ 3,224,534	₩ 940	₩ -	₩ 1,107,113	₩ 2,318,212	₩ 6,650,799
Cumulative effect of accounting changes	-	-	(5,722)	(17,098)	22,820	-
Balance after adjustments	3,224,534	940	(5,722)	1,090,015	2,341,032	6,650,799
Dividend	-	-	-	-	(451,435)	(451,435)
Balance after appropriations	3,224,534	940	(5,722)	1,090,015	1,889,597	6,199,364
Net income	-	-	-	-	782,618	782,618
Effect of exchange rate fluctuations for overseas branches	-	-	-	-	19,820	19,820
Adjustment of valuation using the equity method	-	-	1,297	-	1,233	2,530
Valuation of available-for-sale securities	-	-	-	(779,834)	-	(779,834)
Valuation of held-to-maturity securities	-	-	-	44	-	44
Valuation of securities using the equity method	-	-	-	3,689	-	3,689
Valuation of negative securities using the equity method	-	-	-	(50)	-	(50)
Valuation of tangible assets	-	-	-	435,337	-	435,337
As of December 31, 2008	₩ 3,224,534	₩ 940	₩ (4,425)	₩ 749,201	₩ 2,693,268	₩ 6,663,518

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Cash Flows

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	₩ 782,618	₩ 960,945
Adjustments to reconcile net income to net cash used in operating activities:		
Loss (gain) on valuation of trading securities, net	(5,574)	6,110
Reversal of impairment loss on available-for-sale securities, net	(24)	(70,502)
Gain on valuation of securities using the equity method, net	(30,349)	(54,637)
Provision for possible loan losses	719,840	307,042
Loss on disposal of tangible assets, net	1,685	987
Depreciation and amortization	119,421	126,362
Loss on revaluation of tangible assets	25,346	-
Loss (gain) on valuation of financial derivatives, net	(127,782)	4,267
Provision for severance benefits	46,901	57,344
Compensation cost	4,728	23,766
Provision for (reversal of) allowance of unused credit limit	(17,220)	18,006
Stock option compensation costs, net	(11,862)	5,417
Loss on foreign exchange trading, net	286,075	187
Others, net	619	(102,259)
	1,011,804	322,090
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in trading securities	(644,878)	867,057
Net decrease (increase) in available-for-sale securities	(1,347,773)	548,042
Net increase in held-to-maturity securities	(1,776,052)	(319,704)
Net decrease (increase) in call loans	1,061,158	(708,002)
Net increase in domestic import usance bill	(1,004,275)	(372,120)
Net increase credit card receivables	(138,181)	(151,934)
Net increase in bills bought in foreign currencies	(1,005,237)	(393,494)
Net decrease (increase) in bills bought	391,733	(99,964)
Net decrease (increase) in bonds purchased under repurchase agreements	(2,340,000)	200,000
Net increase in loans	(4,795,553)	(6,306,550)
Net increase in loans in foreign currencies	(3,617,665)	(1,545,449)
Net decrease (increase) in factoring receivables	180,097	(10,626)
Net decrease (increase) in advances for customers	(24,409)	5,633
Net decrease in privately placed bonds	186,169	400,028
Net increase in deferred loan origination fees and costs	19,058	17,273
Net decrease (increase) in accrued income	(83,468)	47,923
Net increase in prepaid expenses	(4,014)	(644)
Net increase in financial derivatives assets	(3,755,077)	(154,490)
Net increase in accrued expenses	254,224	1,617
Net increase in unearned revenues	16,267	26,881
Payment of severance benefits	(18,036)	(15,835)
Increase in assets under management of pension benefits	(324)	-
Decrease in transfer to National Pension Fund	56	34
Increase in deposit of insurance for severance benefits	(44,459)	(12,068)
Net increase in financial derivatives liabilities	3,756,655	33,288

See accompanying notes to non-consolidated financial statements.



# Non-Consolidated Statements of Cash Flows (Continued)

59

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
	₩	₩
Net decrease in allowance for other liabilities	(15,532)	(14,844)
Decrease in accrued expenses	-	(6,499)
Net decrease in deferred income tax assets	-	826
Net increase in deferred income tax liabilities	115,553	43,227
	(14,633,963)	(7,920,394)
Net cash used in operating activities	(12,839,541)	(6,637,359)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net decrease (increase) in securities using the equity method	(1,061)	593
Disposal of tangible assets	338	4,504
Purchase of tangible assets	(102,502)	(126,756)
Purchase of intangible assets	(16,583)	(28,625)
Net decrease (increase) in accounts receivable	721,816	(1,547,938)
Net increase in guarantee deposits paid	(33,395)	(127,431)
Net increase in other assets	(1,048,137)	(5,812,762)
Net increase in merchant banking account assets	(239)	(1,254,496)
Net increase in due from banks	(4,920,803)	(352,517)
Net cash used in investing activities	(5,400,566)	(9,245,428)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	11,978,492	5,953,672
Net increase in borrowings	3,100,650	1,292,784
Net increase in debentures	1,904,259	2,195,106
Net increase in other liabilities	1,318,484	8,152,114
Dividend	(451,435)	(644,907)
Net cash provided by financing activities	17,850,450	16,948,769
<b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>	<b>(389,657)</b>	<b>1,065,982</b>
<b>CASH AND DUE FROM BANKS, BEGINNING OF YEAR</b>	<b>3,689,561</b>	<b>2,623,579</b>
<b>CASH AND DUE FROM BANKS, END OF YEAR (Note 29)</b>	<b>₩ 3,299,904</b>	<b>₩ 3,689,561</b>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 1. General

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

The Bank 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 Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea. The Bank operates through 353 branches (including 28 depositary offices) and 3 subsidiaries in Korea and 25 branches (including 5 depositary offices and 5 offices) and 8 subsidiaries in overseas as of December 31, 2008.

The Bank's shareholders as of December 31, 2008 are as follows:

Shareholders	Number of shares owned <sup>(*)</sup>	Ownership (%)
LSF-KEB Holdings, SCA	329,042,672	51.02
Export-Import Bank of Korea	40,314,387	6.25
Bank of Korea	39,500,000	6.12
Others	236,049,767	36.61
	644,906,826	100.00

(\*)1) As of December 31, 2008, the date of closing a shareholders' list.

The Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during an extraordinary shareholders' meeting on June 16, 2003. The balance below the par value was recognized as a discount on stock issued.

As of December 31, 2008, the total number of authorized shares of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding).

## 2. Summary of significant accounting policies

### Basis of Non-Consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

### Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to due from banks, loans and securities. Whereas, interest on loans, whose principal or interest is past due at the balance sheet date or defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2008 and 2007, accrued interest income not recognized due to such criteria amounted to ₩122,334 million and ₩81,016 million, respectively.

### Classification of Securities

At acquisition, the Bank classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for under the equity method are classified as securities accounted for using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank sells held-to-maturity securities or exercises early redemption right of securities to issuer in the current year or the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be reclassified to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability or when the Bank holds them not to earn gains on trading in short period.

**Valuation of Securities****1) Valuation of Trading Securities**

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specified identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

**2) Valuation of Available-for-Sale Securities**

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specified identification method for debt securities). The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in accumulated other comprehensive income (loss) is reversed.

**3) Valuation of Held-to-Maturity Securities**

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

**4) Valuation of Securities Using the Equity Method**

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds more than 15 percent of the total issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of investee are reflected in the retained earnings. Changes in the capital surplus, capital adjustments or accumulated other comprehensive income (loss) of investee are reflected as gain or loss on valuation of securities using the equity method in accumulated other comprehensive income (loss).

When the book value of equity securities using the equity method is less than zero due to the cumulative losses of the investees, the Bank discontinues applying the equity method and does not provide for additional losses. If the investee subsequently reports net income, the Bank resumes applying the equity method only after its share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

In addition, any gain or loss from the disposal of equity securities of certain consolidated subsidiaries is accounted for as accumulated other comprehensive income (loss) resulting from applying the equity method in the balance sheets if the subsidiaries are still consolidated even after the Bank disposes of a portion of equity securities.

**5) Reversal of Impairment Loss on Available-for-Sale Securities and Held-to-Maturity Securities**

If the reasons for impairment loss on available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to amount of the previously recognized impairment loss as reversal of impairment loss on available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of impairment loss on held-to-maturity securities.

**6) Reclassification of Securities**

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income (loss) and amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

**Transfer of Securities**

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing control of the securities, the transaction is recorded as secured borrowing transaction.

**Allowance for Possible Losses on Credits**

According to the Korea Financial Accounting Standard Article 57 (Valuation of Receivables), allowance for bad debts shall be provided for estimated uncollectible accounts on a reasonable and objective basis. Presently, the historical loss rate (based on mitigation or roll-rate analysis) is one of the permitted reasonable and objective methods to estimate allowance for financial institutions. However, the Bank provides loan loss provision pursuant to the Supervisory Regulation of the Banking Business, which requires providing more than minimum rate of loss provision for each asset classification category.

The Bank applies the Forward Looking Criteria ("FLC") for its loan classification for large corporate based on the credit rating to determine allowance for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness are considered in developing the credit rating and the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate, household loans and credit card receivables is classified based on the delinquency period, value of collateral and bankruptcy status only. Using such loan classification, the Bank classifies all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss and provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.85 percent (construction, real estate, wholesale & retail, hotel and restaurant industries are 0.9%) or more, 7 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. Households' loans categorized as normal, precautionary, substandard and doubtful are 1 percent or more, 10 percent or more, 20 percent or more and 55 percent or more, respectively. Card receivables as those categories are 1.5 percent or more, 15 percent or more, 20 percent or more and 60 percent or more, respectively.

The Bank provides allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and endorsed notes based on the credit conversion factor and minimum rate of loss provision prescribed by the Financial Supervisory Service (FSS).

In addition, the Bank provides other allowances for the unused limit of credit card (including unused limit of credit card that have not been used at least once in recent one year) and unused loan commitments for corporate and retail loan customers considering the credit conversion factor and minimum rate of loss provision prescribed by the FSS.

**Restructuring of Loans**

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Bank's loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received are less than the book value of the loan (book value before allowances), the Bank offsets first the book value against allowances for loan losses and then recognizes provisions for loan losses. Impairment losses for loans that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated and the book value before allowances for loan losses. If the amount of allowances already established is less than the impairment losses, the Bank establishes additional allowances for the difference. Otherwise, the Bank reverses the allowances for loan losses.

**Deferred Loan Origination Fees and Costs**

The Bank defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

**Valuation of Receivables and Payables at Present Value**

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

**Tangible Assets and Related Depreciation**

Tangible assets are recorded at cost or production cost including incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets. The Bank adopted the amendment to the Statement of Korea Accounting Standards ("SKAS") No. 5 "Property, Plant and Equipment", which permits certain items of its land and buildings to be revalued after acquisition date, applying the revaluation models permitted under SKAS No. 5. As a result of this adoption, gain (loss) on revaluation of tangible assets is accounted as accumulated other comprehensive income and non-operating expenses, respectively.



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

Depreciation is computed by using the declining-balance method (Straight-line method for building and leasehold improvements) based on the estimated useful lives of the assets as follows:

Tangible assets	Estimated useful life	Depreciation method
Buildings	40 years	Straight-line
Leasehold improvements	5 years	Straight-line
Equipment	4 years	Declining balance

#### Intangible Assets and Related Amortization

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less discount if any. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future benefits expected, are capitalized as development costs. Intangible assets are amortized using the straight-line method over 5 years and presented after deducting amortized amount.

#### Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. Such assets are not depreciated. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price. As of December 31, 2008, the Bank does not have non-business use property.

#### Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the collective value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value are adjusted to collective value in the balance sheet and the resulting impairment loss is charged to current operations. If the collective value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the collective value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank assessed the collective value based on expected selling price or appraisal value.

#### Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense on the debentures.

#### Securities under Resale or Repurchase Agreements

Securities purchased under resale agreements are recorded as loans, and securities sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under such agreements.

#### Other Liability Reserve

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank is recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation.

#### Accrued Severance Benefits

The accrued severance benefits that would be payable to assuming all eligible employees and directors were to resign are included in other liabilities. The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefit is presented as a deduction from accrued severance benefits.

The estimated accrued severance benefits, which would be payable assuming all eligible employees and executives were to terminate their employment, amounted to ₩291,933 million and ₩263,806 million as of December 31, 2008 and 2007, respectively. The Bank runs the defined benefit retirement pension plan (DB plan), whose investment manager is Merrill Lynch Trust Company, for retirees of closed branches in U.S. The Bank accounted the present value of estimated pension benefits as of December 31, 2008 as pension benefits payable. The assets invested in the DB plan is accounted as assets under management of pension benefits and pension benefits payable are deducted from it in accordance with KAI opinion 05-2.

#### Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

## Accounting for Share-Based Payment

In accordance with the Statement of Korea Accounting Standards No. 22 – *Share-based Payment* and the Interpretations on Financial Accounting Standards 39-35 – *Accounting for Stock Options*, in case of equity-settled share-based payment transactions, compensation expense for stock option and stock option (capital adjustment) are recorded at fair value at the grant date through an agreement service period, whereas in case of cash-settled share-based payment transactions, compensation expense for stock option and accrued expenses are recorded at fair value at the grant date through an agreement service period. In case of cash-settled share-based payment transactions, the other liabilities (accrued expenses) are assessed at fair value of the balance sheet date or the final settlement date. The changes in the fair value of accrued expenses after the grant date are reflected as compensation expense for stock option. In addition, for share-based payment transactions in which the terms of the arrangement provide a choice for the Bank whether the Bank settles the transaction in cash or by issuing equity instruments, the Bank is required to account for that transaction as a cash-settled share-based payment transaction if the Bank has a present obligation to settle in cash, or as an equity-settled share-based payment transaction if no such obligation exists. In case of a cash-settled share-based payment, compensation cost is recorded as capital adjustment (stock option), and in case of an equity-settled share-based payment, compensation cost is recorded as other liabilities (accrued expenses).

## Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank account are recorded as due from trust accounts of the bank accounts. The Bank 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 Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as operating expense of the bank accounts and as other income of the trust accounts. There is no compensating contribution of the Bank for the year ended December 31, 2008.

## Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Bank 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 Bank'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 Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

### ( 3 ) Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending on the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

## Income Tax Expense

Income tax expense is the amount currently payable for the period, additional income tax or tax refunds for prior years (except for retroactive adjustments of tax effect directly added or deducted to shareholders' equity) added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period the related temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

**Accounting for Foreign Currency Transactions and Translation**

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩1,257.50 and ₩938.20 to US\$ 1.00 at December 31, 2008 and 2007, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

**Application of the Statement of Korea Accounting Standards**

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable based on SKAS Act 92. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures) (excluding No. 14) as of or before December 31, 2007, and SKAS No. 11 (Discontinued Operation) and SKAS No. 21 (Preparation and Presentation of Financial Statements) through SKAS No. 25 (Consolidated Financial Statements) have been adopted since January 1, 2007.

Some SKASs were revised and the material revisions of SKASs, which the Bank adapted, are as follows:

SKAS	Revision
No. 5 (Property, Plant and Equipment)	Application of the cost method or the revaluation method may be chosen by each tangible asset type. Consistent application of the method chosen is required.
No. 15 (Investments in Associates)	Clarifies that in applying the equity method to subsidiaries, except for those instances where the total investment is equal to or less than zero, the net assets and net income or loss on the non-consolidated financial statements of the subsidiary are identical to the net interest in the subsidiary's net assets and net income or loss on the consolidated financial statements of the parent. Clarifies that Subparagraphs (Ga) to (Sa) of Paragraph 39 are illustrative. In addition, the difference between the consideration for the net interest and the net interest in the net assets of the subsidiary, as described under Subparagraphs (Na) to (Ra) is recognized as additional paid-in-capital in the consolidated financial statements of the parent.

As the result of the revision of SKAS No. 5 (Property, Plant and Equipment), the net assets increased by ₩415,567 million and the net income decreased by ₩19,770 million as of and for the year ended December 31, 2008.

In addition, the accompanying financial statements of the previous period are restated based on the above revision on SKAS No. 15. As a result, the unappropriated retained earnings as of December 31, 2007 increased by ₩22,820 million. Gain on valuation of securities using the equity method in accumulated other comprehensive income and capital surplus (capital adjustments in case of below zero) as of December 31, 2007 decreased by ₩17,098 million and ₩5,722 million, respectively.

**Reclassification**

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, such reclassifications had no effect on the previously reported prior period's net income or shareholders' equity of the Bank.

### 3. Cash and due from banks

( 1 ) Cash and due from banks as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	2008	2007
Cash	₩ 876,432	₩ 972,061
Foreign currencies on hand	433,393	357,266
Due from banks in Won	4,684,353	2,433,120
Due from banks in foreign currencies	4,113,528	1,355,944
	₩ 10,107,706	₩ 5,118,391

( 2 ) Due from banks in Won as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%) Dec. 31, 2008	2008	2007
Reserve deposit	The Bank of Korea	-	₩ 3,752,160	₩ 1,437,782
Due from banks on time deposits	Other banks	5.11~6.64	921,383	991,348
Other due from banks	Other banks	0.10~2.40	3,312	3,145
Other due from banks	Other financial institutions	0.02~5.57	7,498	845
			₩ 4,684,353	₩ 2,433,120

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 3 ) Due from banks in foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%) Dec. 31, 2008	2008	2007
Reserve deposit	The Bank of Korea	-	₩ 2,802,781	₩ 413,203
Due from banks on time deposits	Overseas financial institutions	0.00-8.00	526,093	394,602
Other due from banks	Overseas financial institutions	0.00-0.52	432,530	182,713
Other due from banks	Other financial institutions	0.00-0.30	9,444	1,323
Due from banks in other bank-foreign currencies	Overseas financial institutions	0.00-1.00	342,680	364,103
			₩ 4,113,528	₩ 1,355,944

( 4 ) Restricted due from banks in Won and foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007	Reason for restriction
Due from banks in Won:			
The Bank of Korea	₩ 3,752,160	₩ 1,437,782	Required under the BOK Act
Woori Bank and others	560	611	Escrow account
Samsung Futures and others	158	175	Subscription related to derivatives
National Agricultural Cooperative Federation	-	1	Restricted by double payment of card receivable
	3,752,878	1,438,569	
Due from banks in foreign currencies:			
The Bank of Korea	2,802,781	413,203	Required under the BOK Act
BNP Paribas and others	252,143	35,227	Subscription related to derivatives
	3,054,924	448,430	
	₩ 6,807,802	₩ 1,886,999	

( 5 ) Term structure of due from banks in Won and foreign currencies as of December 31, 2008 was as follows (Unit: In millions):

Classification	Due from banks in Won	Due from banks in foreign currencies	Total
Due in less than one year	₩ 4,684,353	₩ 4,107,044	₩ 8,791,397
Due from one to two years	-	-	-
Due from two to three years	-	4,704	4,704
Due from three to five years	-	1,780	1,780
Due more than five years	-	-	-
	₩ 4,684,353	₩ 4,113,528	₩ 8,797,881

### 4. Securities

( 1 ) Securities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Trading securities	₩ 1,049,999	₩ 393,895
Available-for-sale securities	7,126,882	6,854,616
Held-to-maturity securities	3,391,566	2,071,555
Securities using the equity method	544,130	453,369
	₩ 12,112,577	₩ 9,773,435

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 2 ) Securities excluding securities using the equity method as of December 31, 2008 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 15,182	₩ -	₩ 10,662
Beneficiary certificates	5,000	5,000	5,000	4,841
Government and public bonds	221,001	226,553	226,520	228,430
Finance bonds	758,803	755,419	756,457	766,424
Corporate bonds	41,498	41,076	41,266	39,642
	1,026,302	1,043,230	1,029,243	1,049,999
Available-for-sale securities:				
Equity securities	-	781,150	-	1,139,676
Equity investments	-	66,821	-	65,300
Beneficiary certificates	197,718	197,718	197,718	198,117
Government and public bonds	665,219	663,920	651,657	674,632
Finance bonds	4,104,556	4,079,528	4,057,242	4,033,880
Corporate bonds	826,738	828,759	815,148	802,084
Asset-backed securities	150,588	238,262	182,921	161,336
Other debt securities	87,636	87,636	66,153	51,857
	6,032,455	6,943,794	5,970,839	7,126,882
Held-to-maturity securities:				
Government and public bonds	894,498	881,280	887,680	887,680
Finance bonds	2,260,478	2,259,273	2,258,221	2,258,221
Foreign government bonds	28,435	27,682	25,727	25,727
Asset-backed securities	219,031	219,877	218,988	218,988
Other debt securities	957	950	950	950
	3,403,399	3,389,062	3,391,566	3,391,566
	₩ 10,462,156	₩ 11,376,086	₩ 10,391,648	₩ 11,568,447

(\*) Acquisition costs of trading securities are the book value before valuation.



# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

Securities excluding securities using the equity method as of December 31, 2007 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost <sup>(*)</sup>	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 48,681	₩ -	₩ 45,402
Beneficiary certificates	10,000	10,000	10,000	9,730
Government and public bonds	55,743	54,961	55,141	54,639
Finance bonds	256,567	255,260	255,531	253,416
Corporate bonds	30,961	30,646	30,653	30,708
	353,271	399,548	351,325	393,895
Available-for-sale securities:				
Equity securities	-	847,458	-	2,272,262
Equity investments	-	62,966	-	69,305
Government and public bonds	750,398	758,451	734,205	733,476
Finance bonds	2,754,136	2,748,856	2,741,545	2,719,522
Foreign government bonds	125	125	125	125
Corporate bonds	691,974	692,606	687,206	682,336
Asset-backed securities	405,514	401,232	299,844	311,436
Other debt securities	87,636	87,636	60,360	66,154
	4,689,783	5,599,330	4,523,285	6,854,616
Held-to-maturity securities:				
Government and public bonds	795,566	794,503	793,074	793,074
Finance bonds	1,109,846	1,116,420	1,109,390	1,109,822
Foreign government bonds	18,280	17,574	16,665	16,665
Corporate bonds	140,356	141,706	140,675	140,686
Asset-backed securities	10,000	9,989	9,996	9,996
Other debt securities	1,323	1,312	1,312	1,312
	2,075,371	2,081,504	2,071,112	2,071,555
	₩ 7,118,425	₩ 8,080,382	₩ 6,945,722	₩ 9,320,066

(\*) Acquisition costs of trading securities are the book value before valuation.

The difference of trading securities between the fair value and the adjusted cost using the effective interest rate method (acquisition cost for stocks) was recorded as gain on valuation of trading securities amounting to ₩12,466 million and ₩405 million, and loss on valuation of trading securities amounting to ₩6,892 million and ₩6,515 million for the years ended December 31, 2008 and 2007, respectively.

The fair values of trading and available-for-sale debt securities were assessed by applying the average of base prices as of December 31, 2008, provided by Korea Bond Pricing & KR Co. (KBP), KIS Pricing Inc. and National Information & Credit Evaluation Inc. (NICE).

The fair value of available-for-sale non-marketable equity securities such as SK Networks Co., Ltd. and 19 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co., Ltd. and 5 others was reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities. In order to assess the fair value of stocks, the financial statements for 5 years are estimated based on past operating result. Also, assuming the same operation is continued during the estimated period, the model is applied using the estimated financial statements from 2008 to 2012. Operating income and expenses are reasonably estimated based on the past result, the future plan and the expected market condition, and for non-operating income and expenses, gain or loss from irregular transactions such as gain or loss on disposal of tangible assets are excluded. For the equity investment of association, net assets are calculated deducting total liabilities from the present value of assets of each equity investment.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 3 ) Discretionary investing contract assets included in beneficiary certificates of trading securities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Short-term financial instruments	₩ 4,275	₩ 2,385
Stocks	573	7,312
Others	-	45
Total assets	4,848	9,742
Total liabilities	7	12
Net assets value	₩ 4,841	₩ 9,730

( 4 ) The book value of non-marketable stocks and equity investments among available-for-sale securities, which were not valued at fair value as of December 31, 2008 and 2007, was as follows (Unit: In millions):

<2008>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	8,850
KAMCO	6,330
M Cieta Development	1,275
BLADEX	1,234
Hallyu-Wood	1,200
Others	1,446
	53,274
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
	₩ 89,954

<2007>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	7,200
KAMCO	6,330
KCB	3,000
Hallyu-Wood	1,200
M Cieta Development (*)	1,125
BLADEX	921
C & Woobang ENC	733
Others	1,100
	54,548
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
Others	1
	36,681
	₩ 91,229

(\*) The company name was changed from M Cieta Development to M Cieta Development in 2007.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 5 ) The impairment loss and the reversal of impairment loss on available-for-sale securities for the years ended December 31, 2008 and 2007 were as follows (Unit : In millions):

Classification	2008		2007	
	Impairment	Reversal	Impairment	Reversal
Equity securities	₩ 16,861	₩ 1,364	₩ 6,891	₩ 1,364
Equity investments	-	-	-	36,680
Corporate bonds	-	-	-	139
Asset-backed securities	15,873	31,092	15,587	54,797
Bond in foreign currency	-	302	-	-
	₩ 32,734	₩ 32,758	₩ 22,478	₩ 92,980

( 6 ) Loaned securities included in securities as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Securities in foreign currencies	₩ -	₩ 12,701

( 7 ) Securities provided as collateral as of December 31, 2008 were as follows (Unit: In millions):

Provided to	Collateral amount	Book value	Provided for
Korea securities depository & others	₩ 449,615	₩ 446,416	Sale to RP to customer
BOK	680,000	685,645	Settlement of difference
BOK	1,080,000	1,081,632	Borrowings from BOK
BOK	240,000	242,982	RP sold
Others	2,240,200	2,236,396	Derivatives settlement
	₩ 4,689,815	₩ 4,693,071	

In addition, securities that are possible to be discounted by BOK amounted to ₩3,096,617 million as of December 31, 2008.

( 8 ) Securities using the equity method

1) Securities using the equity method as of December 31, 2008 and 2007 were summarized as follows (Unit: shares in thousand, in millions):

<2008>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
Domestic stocks:					
KEB Capital Inc. (KEBC)	14,976	99.3	₩ 74,881	₩ 106,210	₩ 107,696
KEB Futures Co., Ltd. (KEBF)	3,000	100.0	15,000	40,764	41,105
KEB Fund Services Co., Ltd. (*1)	510	100.0	2,550	5,943	2,550
Lippo Incheon Development Co., Ltd. (*2)	388	2.7	1,939	1,863	1,863
Realty Advisors Korea, Ltd.	200	14.3	1,000	2,955	2,955
Ilsan Project Co., Ltd. (*2)	288	4.8	2,880	2,775	2,775
Soul Flora Co., Ltd. (*2)	20	5.0	100	88	88
			98,350	160,598	159,032
Foreign stocks:					
K.E.B. of Canada (KEBOC)	334	100.0	34,680	105,456	105,456
KEB Australia Ltd. (KEBA)	55,000	100.0	47,850	33,332	33,332
K.E.B Deutschland A.G. (KEBDAG)	20	100.0	31,786	72,993	72,993
PT. Bank KEB Indonesia (KEBI)	1	99.0	26,568	106,865	106,953
Banco KEB do Brasil S.A. (KEBB)	33,726	100.0	16,726	17,432	17,432
KEB NY Financial Corp. (NYFinco)	0.1	100.0	25,150	36,422	36,422
KEB LA Financial Corp. (LAFinco)	0.1	100.0	25,150	6,076	6,111
KEB USA International Corp. (USAI)	0.1	100.0	3,144	6,399	6,399
			211,054	384,975	385,098
			₩ 309,404	₩ 545,573	₩ 544,130

(\*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(\*2) The Bank has important influence over the company through designation of a director and others, although the ownership is less than 15%.

# Notes to Non-Consolidated Financial Statements

71

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
Domestic stocks:					
KEB Capital Inc. (KEBC)	14,976	99.3	₩ 74,881	₩ 98,312	₩ 98,439
KEB Futures Co., Ltd. (KEBF)	3,000	100.0	15,000	27,800	28,115
KEB Fund Services Co., Ltd. (*)	510	100.0	2,550	5,101	2,550
Lippo Incheon Development Co., Ltd.	388	2.7	1,939	1,830	1,830
Realty Advisors Korea, Ltd. (*)	200	14.3	1,000	575	1,000
			95,370	133,618	131,934
Foreign stocks:					
K.E.B. of Canada (KEBOC)	334	100.0	31,961	88,142	88,142
KEB Australia Ltd. (KEBA)	55,000	100.0	45,257	31,505	31,505
K.E.B Deutschland A.G. (KEBDAG)	20	100.0	24,718	51,490	51,490
PT. Bank KEB Indonesia (KEBI)	1	99.0	23,119	79,757	79,756
Banco KEB do Brasil S.A. (KEBB)	33,726	100.0	16,452	16,269	16,269
KEB NY Financial Corp. (NYFinco)	0.1	100.0	18,764	24,780	24,780
KEB LA Financial Corp. (LAFinco)	0.1	100.0	18,764	25,257	25,257
KEB USA International Corp. (USAI)	0.1	100.0	2,346	4,236	4,236
			181,381	321,436	321,435
			₩ 276,751	₩ 455,054	₩ 453,369

(\*) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

2) The valuation of securities using the equity method for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Valuation of securities using the equity method	Book value after valuation
KEBC	₩ 74,881	₩ 98,439	₩ -	₩ -	₩ 9,298	₩ (41)	₩ 107,696
KEBF	15,000	28,115	-	-	8,261	4,729	41,105
KEBFS (*)	2,550	2,550	-	-	-	-	2,550
Lippo Incheon Development Co., Ltd.	1,939	1,830	-	-	33	-	1,863
Realty Advisors Korea, Ltd.	1,000	1,000	(1,200)	-	3,155	-	2,955
Ilsan Project Co., Ltd.	2,880	-	2,880	-	(105)	-	2,775
Soul Flora Co., Ltd.	100	-	100	-	(12)	-	88
KEBOC	34,680	88,142	-	7,497	9,817	-	105,456
KEBA	47,850	31,505	-	1,805	22	-	33,332
KEBDAG	31,786	51,490	(719)	14,722	7,500	-	72,993
KEBI	26,568	79,756	-	11,896	15,301	-	106,953
KEBB	16,726	16,269	-	271	892	-	17,432
NYFinCo	25,150	24,780	-	8,434	3,208	-	36,422
LAFinCo	25,150	25,257	-	8,595	(27,741)	-	6,111
USAI	3,144	4,236	-	1,443	720	-	6,399
	₩ 309,404	₩ 453,369	₩ 1,061	₩ 54,663	₩ 30,349	₩ 4,688	₩ 544,130

(\*) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Valuation of securities using the equity method	Book value after valuation
KEBC	₩ 74,881	₩ 85,917	₩ -	₩ -	₩ 12,681	₩ (159)	₩ 98,439
KEBF	15,000	23,085	-	-	5,030	-	28,115
KEBFS (*)	2,550	2,550	-	-	-	-	2,550
Lippo Incheon Development Co., Ltd.	1,939	-	1,939	-	(109)	-	1,830
Realty Advisors Korea, Ltd. (*)	1,000	1,000	-	-	-	-	1,000
KEBOC	31,961	62,746	-	12,198	13,198	-	88,142
KEBA	45,257	24,005	-	2,888	4,612	-	31,505
KEBDAG	24,718	43,160	(593)	5,615	3,308	-	51,490
KEBI	23,119	70,799	-	(2,064)	11,021	-	79,756
KEBB	16,452	12,421	-	2,744	1,104	-	16,269
NYFinCo	18,764	23,555	-	218	1,007	-	24,780
LAFinCo	18,764	22,954	-	212	2,091	-	25,257
USAI	2,346	3,510	-	32	694	-	4,236
	₩ 276,751	₩ 375,702	₩ 1,346	₩ 21,843	₩ 54,637	₩ (159)	₩ 453,369

(\*) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

### 3) Elimination of Unrealized Profit from Inter-Company Transactions

Material unrealized profit from inter-company transactions is eliminated when equity investments were valued. Unrealized gain from lease transaction of inter-company transaction amounted to ₩445 million and ₩762 million as of December 31, 2008 and 2007, respectively.

### 4) Summary of Financial Information of Affiliates

The summary of financial information of affiliates using the equity method as of and for the six months ended December 31, 2008 was as follows (Unit: In millions):

Classification	KEBC	KEBOC	KEBA	KEBDAG	KEBI	Others	Total
Total assets	₩ 978,202	₩ 1,100,226	₩ 401,704	₩ 582,905	₩ 427,164	₩ 1,627,630	₩ 5,117,831
Total liabilities	871,255	994,770	368,372	509,912	319,220	1,371,267	4,434,796
Operation revenue	145,881	60,046	34,508	43,582	33,601	150,048	467,666
Net income	7,994	9,817	22	7,500	15,366	36,030	76,729

Unaudited financial statements as of December 31, 2008 were used for the application of the equity method. The significant events from the closing dates of the investees to that of the Bank were properly reflected in applying the equity method. There was no material exception as a result of analytical review, such as analysis of major accounts to assess reliability of those financial statements.



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 9 ) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By industry type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Government and government-invested public companies	₩ 759,204	72.31	₩ 332,237	84.35
Financial institutions	275,292	26.22	7,505	1.90
Manufacturing	9,683	0.92	32,150	8.16
Others	5,820	0.55	22,003	5.59
	₩ 1,049,999	100.00	₩ 393,895	100.00
Available-for-sale securities:				
Government and government-invested public companies	₩ 2,211,891	31.04	₩ 1,478,732	21.57
Financial institutions	2,918,899	40.96	2,689,884	39.24
Manufacturing	840,085	11.79	1,384,049	20.19
Others	1,156,007	16.21	1,301,951	19.00
	₩ 7,126,882	100.00	₩ 6,854,616	100.00
Held-to-maturity securities:				
Government and government-invested public companies	₩ 2,278,525	67.18	₩ 1,142,419	55.15
Financial institutions	1,038,336	30.62	871,220	42.06
Manufacturing	38,884	1.15	20,375	0.98
Others	35,821	1.05	37,541	1.81
	₩ 3,391,566	100.00	₩ 2,071,555	100.00

( 10 ) The portfolio of securities excluding securities using the equity method, by security type, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By security type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Stocks	₩ 10,662	1.01	₩ 45,402	11.53
Fixed rate bonds	986,663	93.97	301,530	76.55
Floating rate bonds	47,833	4.56	37,233	9.45
Beneficiary certificates	4,841	0.46	9,730	2.47
	₩ 1,049,999	100.00	₩ 393,895	100.00
Available-for-sale securities:				
Stocks	₩ 1,139,676	15.99	₩ 2,272,262	33.15
Fixed rate bonds	3,258,688	45.72	2,385,862	34.81
Floating rate bonds	1,576,526	22.12	1,299,720	18.96
Subordinated bonds	836,718	11.74	761,313	11.11
Beneficiary certificates	198,117	2.78	-	-
Others	117,157	1.65	135,459	1.97
	₩ 7,126,882	100.00	₩ 6,854,616	100.00
Held-to-maturity securities:				
Fixed rate bonds	₩ 2,816,695	83.05	₩ 1,461,909	70.57
Floating rate bonds	44,568	1.31	50,854	2.45
Subordinated bonds	529,353	15.61	558,073	26.94
Others	950	0.03	719	0.04
	₩ 3,391,566	100.00	₩ 2,071,555	100.00

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 11 ) The portfolio of securities excluding securities using the equity method, by country, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By country type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Korea	₩ 1,049,999	100.00	₩ 393,895	100.00
Available-for-sale securities:				
Korea	7,055,396	98.99	6,731,325	98.20
Cayman Islands	45,019	0.64	38,613	0.56
USA	6,533	0.09	63,062	0.92
Hong Kong (China)	4,244	0.06	5,852	0.09
UK	2,560	0.04	2,802	0.04
Others	13,130	0.18	12,962	0.19
	7,126,882	100.00	6,854,616	100.00
Held-to-maturity securities:				
Korea	3,365,791	99.24	2,054,854	99.19
Singapore	20,043	0.59	11,584	0.56
Philippines	5,683	0.17	5,081	0.25
Hong Kong (China)	49	0.00	36	0.00
	₩ 3,391,566	100.00	₩ 2,071,555	100.00

( 12 ) Term structure of securities except for stocks and equity investments in available-for-sale and held-to-maturity securities as of December 31, 2008 was as follows (Unit: In millions):

Classification	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
Government and public bonds	₩ 832,329	₩ 958,385	₩ 28	₩ -	₩ 1,790,742
Finance bonds	2,599,645	3,491,335	950,007	17,538	7,058,525
Foreign government bonds	20,044	-	5,683	-	25,727
Corporate bonds	205,402	846,146	9,166	-	1,060,714
Beneficiary certificates	4,841	198,117	-	-	202,958
Asset-backed securities	50,291	84,388	26,657	-	161,336
Others	950	-	51,857	-	52,807
	₩ 3,713,502	₩ 5,578,371	₩ 1,043,398	₩ 17,538	₩ 10,352,809

( 13 ) Structured securities relating to stock and interest rate and credit risk as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (loans)	₩ 45,070	₩ -	₩ 45,070
Bonds with warrant (loans)	101,500	-	101,500
	146,570	-	146,570
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	20,079	-	20,079
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	-	-	-
Range (accrual) bond (available-for-sale securities)	19,822	-	19,822
	39,901	-	39,901
Structured notes relating to credit risk:			
Synthetic CDO	-	18,362	18,362
	₩ 186,471	₩ 18,362	₩ 204,833

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (loans)	₩ 24,820	₩ -	₩ 24,820
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	239,252	-	239,252
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	40,144	-	40,144
	279,396	-	279,396
Structured notes relating to credit risk:			
Synthetic CDO	-	18,398	18,398
	₩ 304,216	₩ 18,398	₩ 322,614

( 14 ) Changes in accumulated other comprehensive income (loss) of available-for-sale securities for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Equity securities	₩ 1,118,072	₩ (1,054,156)	₩ (9,405)	₩ 318,803	₩ 373,314
Debt securities	(27,454)	(49,093)	7,033	6,984	(62,530)
	₩ 1,090,618	₩ (1,103,249)	₩ (2,372)	₩ 325,787	₩ 310,784

( 15 ) Changes in accumulated other comprehensive loss of held-to-maturity securities for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Debt securities	₩ (363)	₩ (2)	₩ 94	₩ (48)	₩ (319)

( 16 ) Changes in accumulated other comprehensive income of securities using the equity method for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Changes in securities using the equity method	₩ -	₩ 4,729	₩ -	₩ (1,040)	₩ 3,689
Negative changes in securities using the equity method	(240)	(41)	-	(9)	(290)

( 17 ) Acquisition of stocks of Visa Inc.

The Bank acquired shares of Visa Inc. through the IPO scheme on March 12, 2008, and recognized other non-operating income amounting to ₩18,508 million. The Bank sold 3,219 thousand shares by purchasing treasury stock of Visa Group and recognized gain on disposal of available-for-sale securities amounting to ₩74,396 million.

( 1 ) Loans as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Call loans	₩ 1,587,069	₩ 2,648,227
Domestic import usance bill	2,746,929	1,742,654
Credit card receivables	2,552,608	2,440,553
Bills bought in foreign currencies	4,449,075	3,443,838
Bills bought in Won	423,294	815,027
Bonds purchased under repurchase agreements	2,340,000	-
Loans in Won	41,612,045	37,120,145
Loans in foreign currencies	9,042,746	5,479,975
Factoring receivables	130,689	310,786
Advances for customers	31,127	6,718
Privately placed bonds	612,444	798,613
	65,528,026	54,806,536
Less: Allowance for possible loan losses (see Notes 6 and 7)	(1,064,899)	(719,365)
Deferred loan origination fees and costs	(50,850)	(31,792)
	₩ 64,412,277	₩ 54,055,379

## 5. Loans

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 2 ) Loans in Won and loans in foreign currencies as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification		2008	2007
Loans in Won:			
Commercial	Financial loans:		
	Working capital loans	₩ 22,460,138	₩ 20,014,990
	Facilities loans	2,680,833	1,665,272
	Loans with government funds:		
	Working capital loans	72,339	80,170
	Facilities loans	506,575	481,256
		25,719,885	22,241,688
Households	General purpose loans	13,564,000	12,753,929
	Housing loans	2,198,526	1,969,759
		15,762,526	14,723,688
Public sector and others	Working capital loans	95,978	61,708
	Facilities loans	25,186	3,505
	General purpose loans	8,470	89,556
		129,634	154,769
Total loans in Won		41,612,045	37,120,145
Loans in foreign currencies :	Working capital loans	1,119,121	898,043
	Facilities loans	3,683,900	1,519,028
	Others	4,088,502	2,885,534
	Inter-bank loans	151,223	177,370
Total loans in foreign currencies		9,042,746	5,479,975
		₩ 50,654,791	₩ 42,600,120

( 3 ) Loans in Won, loans in foreign currencies and domestic import usance bill, classified by borrower type, as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Large corporations	₩ 5,337,329	₩ 6,295,430	₩ 1,924,276	₩ 13,557,035	₩ 25.39
Small and medium corporations (*)	20,382,556	2,747,316	822,653	23,952,525	44.85
Households	15,762,526	-	-	15,762,526	29.52
Others	129,634	-	-	129,634	0.24
	₩ 41,612,045	₩ 9,042,746	₩ 2,746,929	₩ 53,401,720	₩ 100.00

(\*) Small and medium corporations are prescribed in Article 2 of the Small and Medium-sized Enterprise Basic Act.

<2007>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Large corporations	₩ 3,642,676	₩ 4,449,470	₩ 1,122,379	₩ 9,214,525	₩ 20.78
Small and medium corporations (*)	18,599,012	1,030,505	620,275	20,249,792	45.67
Households	14,723,688	-	-	14,723,688	33.20
Others	154,769	-	-	154,769	0.35
	₩ 37,120,145	₩ 5,479,975	₩ 1,742,654	₩ 44,342,774	₩ 100.00

(\*) Small and medium corporations are prescribed in Article 2 of the Small and Medium-sized Enterprise Basic Act.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 4 ) Loans in foreign currencies and domestic import usance bill, classified by borrower's country, as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

<2008>

Classification	Loans in foreign currencies		Domestic import usance bill		Total	Percentage (%)
	Loans in U.S. dollars (*)	Translation into Won	Loans in U.S. dollars (*)	Translation into Won		
Korea	\$ 4,739,219	₩ 5,959,567	\$ 2,184,437	₩ 2,746,929	₩ 8,706,496	73.85
Canada	668,191	840,250	-	-	840,250	7.13
Japan	450,074	565,968	-	-	565,968	4.80
USA	367,367	461,964	-	-	461,964	3.92
China	161,365	202,917	-	-	202,917	1.72
Others	804,835	1,012,080	-	-	1,012,080	8.58
	<b>\$ 7,191,051</b>	<b>₩ 9,042,746</b>	<b>\$ 2,184,437</b>	<b>₩ 2,746,929</b>	<b>₩ 11,789,675</b>	<b>100.00</b>

(\*) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate at the balance sheet date.

<2007>

Classification	Loans in foreign currencies		Domestic import usance bill		Total	Percentage (%)
	Loans in U.S. dollars (*)	Translation into Won	Loans in U.S. dollars (*)	Translation into Won		
Korea	\$ 3,317,768	₩ 3,112,730	\$ 1,857,444	₩ 1,742,654	₩ 4,855,384	67.22
Canada	688,009	645,490	-	-	645,490	8.94
USA	501,314	470,333	-	-	470,333	6.51
Japan	367,831	345,099	-	-	345,099	4.78
China	127,545	119,663	-	-	119,663	1.66
Others	838,478	786,660	-	-	786,660	10.98
	<b>\$ 5,840,945</b>	<b>₩ 5,479,975</b>	<b>\$ 1,857,444</b>	<b>₩ 1,742,654</b>	<b>₩ 7,222,629</b>	<b>100.00</b>

(\*) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate at the balance sheet date.

( 5 ) Loans on Won, loans in foreign currencies and domestic import usance bill, classified by industry, as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Corporations:	₩ 25,719,885	₩ 4,084,865	₩ 2,746,929	₩ 32,551,679	67.19
Manufacturing	9,642,619	1,937,876	2,325,019	13,905,514	28.70
Service	3,437,085	477,436	381,239	4,295,760	8.87
Real estate and renting and leasing	3,892,542	153,048	62	4,045,652	8.35
Construction	2,877,962	26,991	10,614	2,915,567	6.02
Transportation business	1,312,335	759,017	4,355	2,075,707	4.28
Others	4,557,342	730,497	25,640	5,313,479	10.97
Households	15,762,526	-	-	15,762,526	32.54
Public sector and others	129,634	-	-	129,634	0.27
	<b>41,612,045</b>	<b>4,084,865</b>	<b>2,746,929</b>	<b>48,443,839</b>	<b>100.00</b>
Loans of overseas branches	-	4,957,881	-	4,957,881	
	<b>₩ 41,612,045</b>	<b>₩ 9,042,746</b>	<b>₩ 2,746,929</b>	<b>₩ 53,401,720</b>	



# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Corporations:	₩ 22,241,688	₩ 2,168,815	₩ 1,742,654	₩ 26,153,157	63.74
Manufacturing	8,101,371	1,130,476	1,462,867	10,694,714	26.06
Finance and insurance	624,551	257,563	-	882,114	2.15
Telecommunications	36,081	-	7	36,088	0.09
Service	5,197,444	268,471	215,311	5,681,226	13.85
Construction	3,090,027	45,088	45,838	3,180,953	7.75
Others	5,192,214	467,217	18,631	5,678,062	13.84
Households	14,723,688	-	-	14,723,688	35.88
Public sector and others	154,769	-	-	154,769	0.38
	37,120,145	2,168,815	1,742,654	41,031,614	100.00
Loans of overseas branches	-	3,311,160	-	3,311,160	
	₩ 37,120,145	₩ 5,479,975	₩ 1,742,654	₩ 44,342,774	

( 6 ) Loans to financial institutions as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 54,792	₩ -	₩ 1,061,449	₩ 1,116,241	39.74
Other financial institutions	913,976	101,760	-	1,015,736	36.16
Overseas financial institutions	-	151,223	525,620	676,843	24.10
	₩ 968,768	₩ 252,983	₩ 1,587,069	₩ 2,808,820	100.00

<2007>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ -	₩ 1,505,959	₩ 1,517,959	43.00
Other financial institutions	612,551	80,193	-	692,744	19.62
Overseas financial institutions	-	177,370	1,142,268	1,319,638	37.38
	₩ 624,551	₩ 257,563	₩ 2,648,227	₩ 3,530,341	100.00

( 7 ) The term structure of loans in Won, loans in foreign currencies and domestic import usance bill as of December 31, 2008 was as follows (Unit: In millions):

Classification	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total
Due in less than one year	₩ 30,568,562	₩ 5,826,136	₩ 2,746,701	₩ 39,141,399
Due from one to two years	2,980,717	492,878	201	3,473,796
Due from two to three years	2,035,597	820,171	-	2,855,768
Due from three to five years	1,892,983	936,798	-	2,829,781
Due after five years	4,134,186	966,763	27	5,100,976
	₩ 41,612,045	₩ 9,042,746	₩ 2,746,929	₩ 53,401,720

( 8 ) The changes in deferred loan origination fees and costs for the year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees and costs	₩ 31,792	₩ 51,066	₩ (32,008)	₩ 50,850

( 9 ) The disposed loans for the year ended December 31, 2008 were as follows (Unit: In millions):

Purchaser	Nominal amount	Allowance of possible loan losses at disposal	Gain (Loss) on disposal of loans
Hyundai Asset Resolution Co., Ltd. (*)	₩ 5,484	₩ -	₩ 1,385
KEB 16 <sup>th</sup> Securitization Specialty Co., Ltd.	105,206	14,370	3,219
KCR Partners Co., Ltd. (*)	55,236	-	2,987
Tongyang Financial Co., Ltd. (*)	100,668	-	1,979
Jinheung Savings Bank	110,273	7,329	(25,855)

(\*) Gain on disposal of bad debts.

## 6. Restructured loans

( 1 ) The loans that were restructured because of workouts plan and others for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Restructuring loans	Present value (*)	Ending balance of present value discounts
Workout plan	₩ 357,258	₩ 357,258	₩ -
Corporate reorganization	108,867	105,629	3,238
Rationalization of industry	109,696	74,893	34,803
	₩ 575,821	₩ 537,780	₩ 38,041

(\*) As the present value is calculated with fair value at the restructuring date, if there is no fair value, the present value of total future cash receipts under the restructuring plans is discounted using interest rates of 6.43 percent to 13.46 percent. Also, the present value discount is calculated using effective interest rate method.

( 2 ) Changes in the present value discounts relating to the outstanding restructured loans for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Amount (*1)	Present value discounts			
		Beginning balance	Addition	Deduction	Ending balance (*2)
Loans:					
Court receivership	₩ 4,138	₩ 592	₩ -	₩ (75)	₩ 517
Others	97,012	41,760	161	(8,824)	33,097
	101,150	42,352	161	(8,899)	33,614
Accounts receivable:					
Court receivership	-	2,134	-	(2,134)	-
Others	18,733	5,136	503	(1,212)	4,427
	18,733	7,270	503	(3,346)	4,427
	₩ 119,883	₩ 49,622	₩ 664	₩ (12,245)	₩ 38,041

(\*1) These only include restructured loans discounted at present value.

(\*2) The present value discount is presented as allowance of possible loan losses.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 7. Allowance for possible loan losses

( 1 ) The allowance for possible loan losses as of December 31, 2008 and 2007 was summarized as follows (Unit: In millions):

<2008>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Call loans	₩ 1,587,069	₩ -	₩ -	₩ -	₩ -	₩ 1,587,069
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Credit card loans	2,477,046	40,633	210	25,984	8,735	2,552,608
Allowance	37,156	8,157	42	15,930	8,735	70,020
Allowance percentage	1.50%	20.07%	20.00%	61.31%	100.00%	2.74%
Bills bought in foreign currencies (*1)	4,504,307	578	10,676	-	-	4,515,561
Allowance	38,287	40	5,231	-	-	43,558
Allowance percentage	0.85%	7.00%	49.00%	-	-	0.96%
Bonds bought under resale agreements	2,340,000	-	-	-	-	2,340,000
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Loans in Won (*2)	40,782,246	545,431	374,402	47,397	186,360	41,935,836
Allowance	376,689	45,695	76,145	26,776	186,360	711,665
Allowance percentage	0.92%	8.38%	20.34%	56.49%	100.00%	1.70%
Loans in foreign currencies (*3)	11,490,445	97,090	26,854	10,308	13,755	11,638,452
Allowance	104,240	6,855	6,130	7,166	13,755	138,146
Allowance percentage	0.91%	7.06%	22.83%	69.51%	100.00%	1.19%
Inter-bank loans	151,223	-	-	-	-	151,223
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Factoring receivables	130,689	-	-	-	-	130,689
Allowance	1,111	-	-	-	-	1,111
Allowance percentage	0.85%	-	-	-	-	0.85%
Advances for customers (*4)	3,016	8,180	3,165	46	16,182	30,589
Allowance	26	898	633	23	16,182	17,762
Allowance percentage	0.85%	10.98%	20.00%	50.00%	100.00%	58.07%
Privately placed bonds (*5)	607,534	2,200	2,360	-	291	612,385
Allowance	5,164	154	472	-	291	6,081
Allowance percentage	0.85%	7.00%	20.00%	-	100.00%	0.99%
Other accounts (*6)	4,751	6,074	4,015	5,987	34,222	55,049
Allowance	40	425	803	3,025	34,222	38,515
Allowance percentage	0.85%	7.00%	20.00%	50.53%	100.00%	69.96%
Sum:						
Loans and other accounts	64,078,326	700,186	421,682	89,722	259,545	65,549,461
Allowance	562,713	62,224	89,456	52,920	259,545	1,026,858
Allowance percentage	0.88%	8.89%	21.21%	58.98%	100.00%	1.57%
Present value discounts	34,802	1,194	2,045	-	-	38,041
Allowance for possible loan losses on balance sheet						₩ 1,064,899

(\*1) Local L/C bills bought in Won amounting to ₩17,731 million and Local L/C bills bought in foreign currencies amounting to ₩48,755 million among bills bought in Won are included in bills bought in foreign currencies.

(\*2) Commercial bills purchased amounting to ₩356,808 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩33,017 million is deducted.

(\*3) Domestic import usance bill is included in foreign currencies. Interbank loans in foreign currencies of ₩151,223 million is deducted.

(\*4) Present value discount amounting to ₩538 million is deducted on advances for customers.

(\*5) Present value discount amounting to ₩59 million is deducted on privately placed bonds.

(\*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩5,099 million, suspense payments in relation with loans amounting to ₩49,000 million and securities (commercial paper) amounting to ₩950 million.

# Notes to Non-Consolidated Financial Statements

81

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Call loans	₩ 2,648,227	₩ -	₩ -	₩ -	₩ -	₩ 2,648,227
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Credit card loans	2,376,605	34,034	-	24,067	5,847	2,440,553
Allowance	35,649	7,943	-	15,062	5,847	64,501
Allowance percentage	1.50%	23.34%	-	62.58%	100.00%	2.64%
Bills bought in foreign currencies (*1)	3,543,588	32	7,965	1,501	-	3,553,086
Allowance	30,121	2	3,903	751	-	34,777
Allowance percentage	0.85%	7.00%	49.00%	50.03%	-	0.98%
Loans in Won (*2)	37,270,341	247,837	193,592	9,239	65,133	37,786,142
Allowance	344,949	19,248	39,967	4,703	65,133	474,000
Allowance percentage	0.93%	7.77%	20.64%	50.90%	100.00%	1.25%
Loans in foreign currencies (*3)	6,944,075	55,014	37,733	6,227	464	7,043,513
Allowance	63,118	5,609	8,130	4,551	464	81,872
Allowance percentage	0.91%	10.20%	21.55%	73.08%	100.00%	1.16%
Inter-bank loans	177,370	-	-	-	-	177,370
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Factoring receivables	310,786	-	-	-	-	310,786
Allowance	2,641	-	-	-	-	2,641
Allowance percentage	0.85%	-	-	-	-	0.85%
Advances for customers (*4)	366	2,622	1,190	10	1,804	5,992
Allowance	3	487	238	5	1,804	2,537
Allowance percentage	0.85%	18.57%	20.00%	50.00%	100.00%	42.34%
Privately placed bonds (*5)	798,096	245	173	-	-	798,514
Allowance	6,784	17	35	-	-	6,836
Allowance percentage	0.85%	7.00%	20.23%	-	-	0.86%
Other accounts (*6)	1,331	86	1,634	1,138	1,665	5,854
Allowance	11	7	327	569	1,665	2,579
Allowance percentage	0.85%	8.32%	20.00%	50.00%	100.00%	44.06%
Sum:						
Loans and other accounts	54,070,785	339,870	242,287	42,182	74,913	54,770,037
Allowance	483,276	33,313	52,600	25,641	74,913	669,743
Allowance percentage	0.89%	9.80%	21.71%	60.79%	100.00%	1.22%
Present value discounts	41,463	3,745	4,396	-	18	49,622
Allowance for possible loan losses on balance sheet						₩ 719,365

(\*1) Local L/C bills bought in Won amounting to ₩17,352 million and Local L/C bills bought in foreign currencies amounting to ₩91,896 million among bills bought in Won are included in bills bought in foreign currencies.

(\*2) Commercial bills purchased amounting to ₩705,779 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩39,782 million is deducted.

(\*3) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies. Present value discount amounting to ₩1,746 million is deducted.

(\*4) Present value discount amounting to ₩726 million is deducted on advances for customers.

(\*5) Present value discount amounting to ₩99 million is deducted on privately placed bonds.

(\*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩959 million, suspense payments in relation with loans amounting to ₩3,583 million and securities (commercial paper) amounting to ₩1,312 million.

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 2 ) The changes in allowance for possible loan losses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Beginning balance	₩ 719,365	₩ 614,102
Provision for possible loan losses	719,840	307,042
Loans written-off	(568,411)	(355,682)
Repurchase of loan and others	183,818	153,328
Translation adjustments of overseas	18,334	1,169
Changes in present value discounts	(8,047)	(594)
Ending balance	₩ 1,064,899	₩ 719,365

( 3 ) The allowance for possible loan losses compared to total loans, net of present value discount, was summarized as follows (Unit: In millions):

Classification	2008	2007	2006
Loans (*1)	₩ 61,471,169	₩ 51,944,440	₩ 43,742,764
Allowance for possible loan losses (*2)	1,026,858	669,743	563,886
Percentage (%)	1.67	1.29	1.29

(\*1) Call loans, bonds purchased under repurchase agreements and interbank loans in foreign currencies are excluded.

(\*2) Present value discounts are excluded.

### 8. Tangible assets

( 1 ) Tangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Tangible assets	₩ 2,200,006	₩ 1,606,470
Less: accumulated depreciation	(772,788)	(729,606)
	₩ 1,427,218	₩ 876,864

( 2 ) Tangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

<2008>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 938,810	₩ -	₩ 938,810
Buildings	541,098	(182,609)	358,489
Leasehold improvements	114,334	(79,273)	35,061
Equipment and vehicles	605,764	(510,906)	94,858
	₩ 2,200,006	₩ (772,788)	₩ 1,427,218

<2007>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 377,328	₩ -	₩ 377,328
Buildings	513,696	(168,003)	345,693
Leasehold improvements	100,562	(66,606)	33,956
Equipment and vehicles	595,223	(494,997)	100,226
Construction in progress	19,661	-	19,661
	₩ 1,606,470	₩ (729,606)	₩ 876,864



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 3 ) The changes in book value of tangible assets for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Reclassification	Disposal	Depreciation	Revaluation excess (*)	Others	Ending
Land	₩ 377,328	₩ 10,702	₩ 17,329	₩ (72)	₩ -	₩ 532,778	₩ 745	₩ 938,810
Buildings	345,693	21,032	2,330	(469)	(13,041)	-	2,944	358,489
Leasehold improvements	33,956	12,636	2	(294)	(12,280)	-	1,041	35,061
Equipment and vehicles	100,226	58,132	-	(1,188)	(63,056)	-	744	94,858
Construction in progress	19,661	-	(19,661)	-	-	-	-	-
	₩ 876,864	₩ 102,502	₩ -	₩ (2,023)	₩ (88,377)	₩ 532,778	₩ 5,474	₩ 1,427,218

(\*) Before tax adjustment

( 4 ) The published value of the land was ₩755,083 million and ₩696,977 million as of December 31, 2008 and 2007, respectively, based on the Laws on Disclosure of Land Price and Valuation of Land.

( 5 ) Tangible assets, which have been insured as of December 31, 2008 and 2007, were as follows (Unit: In millions):

Type of insurance	Asset insured	Insured balance	Insurance company
Property composite	Buildings	₩ 339,719	Hyundai Marine Fire Insurance Co., Ltd. and others
	Leasehold improvements	37,348	
	Equipment and vehicles	93,661	
		₩ 470,728	

( 6 ) The revaluation of tangible assets for the year ended December 31, 2008 was as follows (Unit: In millions):

Classification	Beginning	Revaluation profit	Revaluation loss (*)	Ending
Land	₩ 406,032	₩ 558,124	₩ (25,346)	₩ 938,810

(\*) Before tax adjustment

The Bank accounted gain on revaluation of tangible assets of ₩435,337 million, net of deferred tax liabilities amounting to ₩122,787 million, as accumulated other comprehensive income. The Bank accounted the loss on revaluation and deferred tax assets of ₩25,346 million and ₩5,576 million, respectively. Nara and Daewha appraisal firms revaluated the Bank's land as of December 31, 2008.

## 9. Other assets

( 1 ) Other assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Guarantee deposits paid	₩ 654,646	₩ 621,251
Accounts receivable	5,205,352	5,927,168
Accrued income	378,678	295,210
Prepaid expenses	12,926	8,912
Derivatives assets (see Note 17)	4,674,174	786,839
Intangible assets	65,905	80,151
Sundry assets	1,293,705	1,127,556
	₩ 12,285,386	₩ 8,847,087

( 2 ) Intangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

<2008>			
Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 195,150	₩ (129,977)	₩ 65,173
Others (*)	2,331	(1,599)	732
	₩ 197,481	₩ (131,576)	₩ 65,905

(\*) The effect of exchange rate fluctuation is included.

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 178,852	₩ (99,355)	₩ 79,497
Others (*)	4,297	(3,643)	654
	₩ 183,149	₩ (102,998)	₩ 80,151

(\*) The effect of exchange rate fluctuation is included.

( 3 ) The changes in intangible assets for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Amortization	Change in foreign currencies	Ending
Development expenditures	₩ 79,497	₩ 16,298	₩ (30,622)	₩ -	₩ 65,173
Others	654	285	(422)	215	732
	₩ 80,151	₩ 16,583	₩ (31,044)	₩ 215	₩ 65,905

( 4 ) Sundry assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Suspense payments in Won	₩ 94,743	₩ 54,547
Suspense payments in foreign currencies	2,518	2,595
Articles of consumption	5,051	4,231
Deposited money	20,147	19,682
Money transfer receivable	200	-
Domestic exchange settlement debits	1,153,061	1,002,749
Bills unsettled	17,124	42,625
Others	861	1,127
	₩ 1,293,705	₩ 1,127,556

### 10. Merchant banking account assets

( 1 ) Merchant banking accounts assets as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Loans	₩ 1,761,880	₩ 1,307,870
Cash management accounts	174,000	141,662
Trading securities	1,444,380	1,911,254
Financing lease receivables	-	4,556
Other assets	-	244
Allowance for possible loan losses	(17,148)	(11,825)
	₩ 3,363,112	₩ 3,353,761

( 2 ) Loans as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Bills discounted	₩ 1,761,880	₩ 1,307,870
Discount interest rate of short-term bill (%)	3.49~10.25	4.73~8.01

The merchant banking division of the Bank provides discounting of short-term bills maturing in one year or less at the interest rate of 3.49~10.25 percent per annum.

( 3 ) Cash management accounts as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily.

CMA assets as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Bills discounted	₩ 174,000	₩ 2,927
Securities	-	138,735
	₩ 174,000	₩ 141,662

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## ( 4 ) Trading securities of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Face value	₩ 1,453,500	₩ 1,923,900
Adjusted value (*)	1,443,156	1,912,130
Fair value (Book value)	1,444,380	1,911,254

(\*) Accrued interest is reflected.

## ( 5 ) Asset quality classification and related allowance for loan losses

The asset quality classification and allowance for possible loan losses of the accounts in the merchant banking division of the Bank as of December 31, 2008 and 2007 were as follows (Unit: In millions):

## &lt;2008&gt;

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for possible loan losses
Loans (*)	₩ 1,926,880	₩ 9,000	₩ -	₩ -	₩ -	₩ 1,935,880	₩ 17,148

(\*) Including bills discounted in CMA account.

## &lt;2007&gt;

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for possible loan and lease losses
Loans (*)	₩ 1,310,797	₩ -	₩ -	₩ -	₩ -	₩ 1,310,797	₩ 11,142
Financial leases	-	4,556	-	-	-	4,556	683
	₩ 1,310,797	₩ 4,556	₩ -	₩ -	₩ -	₩ 1,315,353	₩ 11,825

(\*) Including bills discounted in CMA account.

## ( 6 ) Other assets included in the merchant banking assets as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Accrued income	₩ -	₩ 244

## ( 7 ) Operating income of merchant banking accounts for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

Classification	2008	2007
Interest revenues	₩ 193,112	₩ 128,948
Commission revenues	286	281
Reversal of allowance for possible loan losses	-	2,775
Other revenues	14,435	6,824
	₩ 207,833	₩ 138,828

## 11. Deposits

## ( 1 ) Deposits as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Demand deposits	₩ 18,893,827	₩ 18,176,330
Time deposits	30,081,512	20,683,185
Negotiable certificates of deposits	7,422,018	5,571,476
	₩ 56,397,357	₩ 44,430,991

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 2 ) Details of deposits as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Demand deposits in Won:		
Checking deposits	₩ 244,153	₩ 224,068
Passbook deposits	1,163,813	1,276,736
Temporary deposits	820,612	878,238
Public fund deposits	27,812	38,522
General savings deposits	11,988,076	12,253,108
	14,244,466	14,670,672
Demand deposits in foreign currencies:		
Checking deposits	969,997	868,773
Passbook deposits	3,663,760	2,607,019
Temporary deposits	15,604	29,866
	4,649,361	3,505,658
Time deposits in Won:		
Time deposits	20,441,411	13,139,482
Installment savings deposits	893,182	957,391
Long-term savings for households	602,639	732,193
	21,937,232	14,829,066
Time deposits in foreign currencies:		
Time deposits	8,042,187	5,716,899
Notice deposits	32,040	26,578
Others	6,188	6,473
	8,080,415	5,749,950
Mutual installment savings	63,865	104,169
Negotiable certificates of deposits	7,422,018	5,571,476
	₩ 56,397,357	₩ 44,430,991

( 3 ) Deposits with financial institutions as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 6,647	₩ 175,557	₩ 7,759	₩ 189,963
Demand deposits in foreign currencies	133,085	15,651	225,230	373,966
Time deposits:				
Savings deposits in Won	913,968	2,811,364	22,012	3,747,344
Savings deposits in foreign currencies	322,765	537,968	-	860,733
Negotiable certificates of deposits	51,000	2,581,994	-	2,632,994
	₩ 1,427,465	₩ 6,122,534	₩ 255,001	₩ 7,805,000

<2007>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 1,081,072	₩ 630,771	₩ 7,492	₩ 1,719,335
Demand deposits in foreign currencies	394,263	13,964	122,861	531,088
Time deposits:				
Savings deposits in Won	90,000	3,780,311	67,430	3,937,741
Savings deposits in foreign currencies	-	133,619	-	133,619
Negotiable certificates of deposits	204,849	165,625	-	370,474
	₩ 1,770,184	₩ 4,724,290	₩ 197,783	₩ 6,692,257

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 4 ) Term structure of deposits as of December 31, 2008 was as follows (Unit: In millions):

Classification	Deposits in Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in less than one year	₩ 35,110,367	₩ 12,715,511	₩ 7,392,000	₩ 55,217,878
Due from one to two years	681,103	2,514	30,018	713,635
Due from two to three years	209,607	11,751	-	221,358
Due from three to five years	105,930	-	-	105,930
Due after five years	138,556	-	-	138,556
	₩ 36,245,563	₩ 12,729,776	₩ 7,422,018	₩ 56,397,357

## 12. Borrowings

( 1 ) Borrowings as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Call money	₩ 2,739,101	₩ 808,582
Bills sold	31,491	64,009
Bonds sold under repurchase agreements	432,383	444,762
Borrowings	8,755,776	7,540,748
Debentures	10,790,561	8,547,853
Less: Discount on debentures	(44,721)	(37,788)
	₩ 22,749,312	₩ 17,405,954

( 2 ) Call money as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Call money in Won	Financial institution in Korea and others	-	₩ -	₩ 39,700
Call money in foreign currencies	Foreign financial institution and others	2.60~8.80	2,739,101	768,882
			₩ 2,739,101	₩ 808,582

( 3 ) Bills sold and bonds sold under repurchase agreements as of December 31, 2008 and 2007 consisted of the following (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Bills sold	General customer	1.80~6.86	₩ 31,491	₩ 64,009
Bonds sold under repurchase agreements	General customer and others	3.20~8.00	432,383	444,762
			₩ 463,874	₩ 508,771

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 4 ) Borrowings as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Borrowings in Won:				
Borrowings from the BOK	BOK	1.75~2.25	₩ 837,166	₩ 641,864
Borrowings from the Korean government	Ministry of Finance and Economy, and others	1.50~5.41	309,342	282,046
Borrowings from banking institutions	Industrial Bank of Korea	1.00~6.03	128,409	268,194
Other borrowings	Small Business Corporation and others	0.00~5.83	484,264	397,618
			1,759,181	1,589,722
Borrowings in foreign currencies:				
Refinance	Export-Import Bank of Korea	3.89~6.62	1,235,760	541,341
Short-term borrowing in foreign currencies	Foreign financial institution	1.85~6.99	2,930,020	3,318,227
Middle and long-term borrowing in foreign currencies	SMBC and others	2.87~6.43	608,557	737,634
Borrowings from banks for sub-loan	Industrial Bank of Korea	-	-	751
Other borrowings	Foreign financial institution	2.35~10.50	2,222,258	1,353,073
			6,996,595	5,951,026
			₩ 8,755,776	₩ 7,540,748

( 5 ) In the normal course of funding activities, the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2008 (see Note 4).

( 6 ) Debentures

1) Debentures as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Annual interest rate (%) Dec. 31, 2008	2008	2007
Debentures in Won:			
Finance debentures	4.89~7.73	₩ 8,191,000	₩ 6,780,000
Subordinated financing debentures	4.90~7.80	1,367,109	694,513
Hybrid debentures	8.50	250,000	250,000
		9,808,109	7,724,513
Discounts on debentures		(39,979)	(34,065)
		9,768,130	7,690,448
Debentures in foreign currencies:			
Finance debentures	0.90~4.83	637,114	579,269
Subordinated financing debentures	5.00	390,059	281,859
		1,027,173	861,128
Discounts on debentures		(4,742)	(3,723)
		1,022,431	857,405
		₩ 10,790,561	₩ 8,547,853



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

2) As of December 31, 2008 and 2007, all finance debentures issued in Won were general debentures and consisted of (Unit: In millions):

Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Oct. 26, 2005	Oct. 26, 2008	5.32	₩ -	₩ 50,000
Jan. 03, 2006	Jan. 03, 2008	5.27	-	30,000
Jan. 04, 2006	Jan. 04, 2008	5.18	-	40,000
Jan. 11, 2006	Jan. 11, 2008	5.20	-	50,000
Jan. 13, 2006	Jan. 13, 2008	5.10	-	50,000
Feb. 08, 2006	Feb. 08, 2008	5.06	-	50,000
Apr. 04, 2006	Apr. 04, 2008	5.04	-	30,000
Apr. 05, 2006	Apr. 05, 2008	5.03	-	50,000
Apr. 11, 2006	Apr. 11, 2008	5.01	-	20,000
Apr. 12, 2006	Apr. 12, 2008	5.00	-	40,000
Apr. 19, 2006	Apr. 19, 2008	5.07	-	50,000
Apr. 25, 2006	Apr. 25, 2008	5.01	-	50,000
May 03, 2006	May 03, 2008	4.96	-	10,000
May 08, 2006	May 08, 2008	4.93	-	50,000
May 11, 2006	May 11, 2008	4.91	-	30,000
May 12, 2006	May 12, 2008	4.91	-	50,000
May 16, 2006	May 16, 2008	4.94	-	50,000
May 17, 2006	May 17, 2008	4.91	-	50,000
May 19, 2006	May 19, 2008	4.88	-	50,000
Jul. 04, 2006	Jul. 04, 2008	5.05	-	50,000
Jul. 05, 2006	Jul. 05, 2008	5.02	-	50,000
Jul. 06, 2006	Jul. 06, 2008	5.00	-	50,000
Jul. 19, 2006	Jul. 19, 2008	5.03	-	50,000
Jul. 26, 2006	Jan. 26, 2008	4.99	-	50,000
Nov. 17, 2006	Nov. 17, 2009	4.89	50,000	50,000
Dec. 04, 2006	Dec. 04, 2008	4.94	-	10,000
Dec. 06, 2006	Dec. 06, 2008	4.92	-	10,000
Dec. 06, 2006	Dec. 06, 2009	4.98	40,000	40,000
Dec. 08, 2006	Dec. 08, 2008	4.89	-	30,000
Dec. 11, 2006	Dec. 11, 2009	5.00	50,000	50,000
Dec. 12, 2006	Dec. 12, 2008	4.96	-	50,000
Dec. 13, 2006	Dec. 13, 2008	4.95	-	50,000
Dec. 14, 2006	Dec. 14, 2008	4.97	-	50,000
Dec. 15, 2006	Dec. 15, 2008	4.99	-	120,000
Dec. 19, 2006	Dec. 19, 2008	5.00	-	50,000
Dec. 20, 2006	Dec. 20, 2008	5.02	-	20,000
Jan. 09, 2007	Jan. 09, 2009	5.07	50,000	50,000
Jan. 10, 2007	Jan. 10, 2010	5.10	50,000	50,000
Jan. 11, 2007	Jan. 11, 2010	5.09	50,000	50,000
Jan. 16, 2007	Jan. 16, 2008	5.09	-	40,000
Jan. 17, 2007	Jan. 17, 2009	5.15	50,000	50,000
Jan. 18, 2007	Jan. 18, 2009	5.17	20,000	20,000
Jan. 18, 2007	Jan. 18, 2010	5.20	30,000	30,000
Jan. 19, 2007	Jan. 19, 2009	5.16	50,000	50,000
Jan. 25, 2007	Jan. 25, 2009	5.20	20,000	20,000
Jan. 25, 2007	Jan. 25, 2010	5.23	30,000	30,000
Feb. 05, 2007	Feb. 05, 2010	5.23	50,000	50,000
Feb. 06, 2007	Feb. 06, 2008	5.10	-	10,000
Feb. 06, 2007	Aug. 06, 2008	5.14	-	30,000
Feb. 09, 2007	Feb. 09, 2010	5.14	50,000	50,000
Feb. 14, 2007	Feb. 14, 2008	5.09	-	40,000
Feb. 14, 2007	Aug. 14, 2008	5.11	-	10,000
Feb. 15, 2007	Feb. 15, 2008	5.05	-	30,000
Feb. 15, 2007	Aug. 15, 2008	5.06	-	60,000
Feb. 16, 2007	Aug. 16, 2008	5.05	-	20,000
Feb. 23, 2007	Aug. 23, 2008	5.03	-	10,000

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Feb. 28, 2007	Feb. 28, 2010	5.05	₩ 30,000	₩ 30,000
Mar. 02, 2007	Mar. 02, 2008	5.03	-	10,000
Mar. 09, 2007	Mar. 09, 2008	5.00	-	40,000
Mar.12, 2007	Mar. 12, 2008	5.03	-	30,000
Mar. 15, 2007	Mar. 15, 2008	5.03	-	30,000
Mar. 15, 2007	Mar. 15, 2009	5.06	20,000	20,000
Mar. 16, 2007	Mar. 16, 2009	5.05	50,000	50,000
Mar. 23, 2007	Sep. 23, 2008	5.02	-	70,000
Mar. 27, 2007	Mar. 27, 2008	5.01	-	20,000
Mar. 27, 2007	Mar. 27, 2009	5.03	30,000	30,000
Mar. 29, 2007	Sep. 29, 2008	5.02	-	10,000
Apr. 03, 2007	Apr. 03, 2009	5.05	50,000	50,000
Apr. 18, 2007	Oct. 18, 2008	5.11	-	10,000
Apr. 19, 2007	Oct. 19, 2008	5.10	-	20,000
Apr. 24, 2007	Oct. 24, 2008	5.15	-	20,000
May 02, 2007	May 02, 2009	5.24	50,000	50,000
May 03, 2007	Nov. 03, 2008	5.20	-	30,000
May 08, 2007	May 08, 2008	5.18	-	10,000
May 08, 2007	May 08, 2009	5.24	10,000	10,000
May 09, 2007	May 09, 2009	5.27	20,000	20,000
May 14, 2007	May 14, 2008	5.22	-	10,000
May 14, 2007	May 14, 2010	5.32	40,000	40,000
May 15, 2007	May 15, 2008	5.24	-	10,000
May 15, 2007	May 15, 2009	5.28	20,000	20,000
May 16, 2007	May 16, 2010	5.35	50,000	50,000
May 17, 2007	May 17, 2010	5.36	50,000	50,000
May 21, 2007	May 21, 2009	5.33	20,000	20,000
May 21, 2007	May 21, 2010	5.39	30,000	30,000
May 23, 2007	May 23, 2010	5.38	100,000	100,000
May 29, 2007	May 29, 2008	5.22	-	50,000
May 30, 2007	May 30, 2010	5.36	50,000	50,000
Jun. 01, 2007	Jun. 01, 2010	5.37	50,000	50,000
Jun. 05, 2007	Jun. 05, 2009	5.28	50,000	50,000
Jun. 13, 2007	Jun. 13, 2010	5.49	50,000	50,000
Jun. 15, 2007	Dec. 15, 2008	5.35	-	50,000
Jun. 18, 2007	Jun. 18, 2009	5.39	30,000	30,000
Jun. 26, 2007	Jun. 26, 2009	5.40	50,000	50,000
Jun. 28, 2007	Jun. 28, 2010	5.44	50,000	50,000
Jul. 10, 2007	Jul. 10, 2009	5.50	50,000	50,000
Jul. 11, 2007	Jul. 11, 2009	5.50	50,000	50,000
Jul. 16, 2007	Jul. 16, 2008	5.40	-	40,000
Jul. 16, 2007	Jan. 16, 2009	5.53	10,000	10,000
Jul. 18, 2007	Jul. 18, 2008	5.41	-	40,000
Jul. 19, 2007	Jan. 19, 2009	5.53	50,000	50,000
Jul. 24, 2007	Jan. 24, 2009	5.52	30,000	30,000
Jul. 24, 2007	Jul. 24, 2010	5.60	20,000	20,000
Jul. 25, 2007	Jul. 25, 2010	5.61	50,000	50,000
Jul. 26, 2007	Jan. 26, 2009	5.51	40,000	40,000
Jul. 26, 2007	Jul. 26, 2009	5.55	10,000	10,000
Jul. 30, 2007	Jul. 30, 2010	5.53	30,000	30,000
Jul. 31, 2007	Jul. 31, 2009	5.48	20,000	20,000
Jul. 31, 2007	Jul. 31, 2010	5.53	30,000	30,000
Aug. 1, 2007	Aug. 1, 2009	5.45	20,000	20,000
Aug. 3, 2007	Aug. 3, 2009	5.44	40,000	40,000
Aug. 3, 2007	Aug. 3, 2010	5.48	10,000	10,000
Aug. 8, 2007	Feb. 8, 2009	5.91	10,000	10,000
Aug. 9, 2007	Aug. 9, 2009	5.57	40,000	40,000
Aug. 14, 2007	Aug. 14, 2010	5.58	10,000	10,000

# Notes to Non-Consolidated Financial Statements

91

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Aug. 23, 2007	Aug. 23, 2010	5.65	₩ 30,000	₩ 30,000
Aug. 24, 2007	Aug. 24, 2010	5.67	50,000	50,000
Aug. 28, 2007	Aug. 28, 2008	5.50	-	10,000
Aug. 29, 2007	Aug. 29, 2008	5.50	-	10,000
Sep. 10, 2007	Sep. 10, 2010	5.77	200,000	200,000
Sep. 20, 2007	Sep. 20, 2008	5.64	-	50,000
Sep. 27, 2007	Sep. 27, 2008	5.65	-	50,000
Oct. 2, 2007	Apr. 2, 2009	5.77	50,000	50,000
Oct. 9, 2007	Oct. 9, 2008	5.65	-	10,000
Oct. 9, 2007	Apr. 9, 2009	5.77	20,000	20,000
Oct. 10, 2007	Oct. 10, 2010	5.93	200,000	200,000
Oct. 11, 2007	Oct. 11, 2008	5.65	-	24,000
Oct. 11, 2007	Apr. 11, 2009	5.78	26,000	26,000
Oct. 12, 2007	Apr. 12, 2009	5.80	50,000	50,000
Oct. 16, 2007	Apr. 16, 2009	5.81	140,000	140,000
Oct. 17, 2007	Apr. 17, 2009	5.80	50,000	50,000
Oct. 18, 2007	Oct. 18, 2009	5.84	30,000	30,000
Oct. 18, 2007	Oct. 18, 2010	5.91	70,000	70,000
Oct. 23, 2007	Oct. 23, 2010	5.84	10,000	10,000
Oct. 24, 2007	Oct. 24, 2008	5.65	-	10,000
Oct. 24, 2007	Oct. 24, 2009	5.78	40,000	40,000
Oct. 25, 2007	Oct. 25, 2008	5.65	-	40,000
Oct. 26, 2007	Apr. 26, 2009	5.74	20,000	20,000
Oct. 29, 2007	Oct. 29, 2008	5.69	-	40,000
Oct. 29, 2007	Apr. 29, 2009	5.76	30,000	30,000
Oct. 30, 2007	Oct. 30, 2008	5.70	-	190,000
Oct. 30, 2007	Apr. 30, 2009	5.76	30,000	30,000
Nov. 02, 2007	Nov. 02, 2009	5.86	40,000	40,000
Nov. 05, 2007	Nov. 05, 2008	5.72	-	50,000
Nov. 06, 2007	Nov. 06, 2008	5.72	-	10,000
Nov. 08, 2007	Nov. 08, 2010	5.88	200,000	200,000
Nov. 14, 2007	Nov. 14, 2010	5.94	50,000	50,000
Nov. 23, 2007	Nov. 23, 2010	6.22	70,000	70,000
Nov. 26, 2007	Nov. 26, 2010	6.25	260,000	260,000
Nov. 30, 2007	Nov. 30, 2010	6.63	170,000	170,000
Dec. 05, 2007	Dec. 05, 2010	6.70	140,000	140,000
Dec. 17, 2007	Dec. 17, 2008	6.33	-	110,000
Jan. 10, 2008	Jul. 10, 2009	6.69	50,000	-
Jan. 11, 2008	Jul. 11, 2009	6.59	50,000	-
Jan. 15, 2008	Jan. 15, 2010	6.39	50,000	-
Jan. 23, 2008	Jul. 23, 2009	5.67	50,000	-
Jan. 29, 2008	Jul. 29, 2009	5.46	20,000	-
Jan. 30, 2008	Jul. 30, 2008	5.42	50,000	-
Jan. 31, 2008	Jan. 31, 2009	5.31	30,000	-
Feb. 15, 2008	Feb. 15, 2010	5.30	30,000	-
Mar. 28, 2008	Sep. 28, 2009	5.77	50,000	-
Apr. 01, 2008	Oct. 01, 2009	5.70	50,000	-
Apr. 02, 2008	Oct. 02, 2009	5.77	100,000	-
Apr. 04, 2008	Oct. 04, 2009	5.75	50,000	-
Apr. 07, 2008	Apr. 07, 2009	6.16	20,000	-
Apr. 07, 2008	Oct. 07, 2009	5.75	30,000	-
Apr. 10, 2008	Apr. 10, 2010	5.71	200,000	-
Apr. 11, 2008	Apr. 11, 2009	5.50	100,000	-
Apr. 14, 2008	Oct. 14, 2009	5.55	50,000	-
Apr. 15, 2008	Apr. 15, 2010	5.58	50,000	-
Apr. 16, 2008	Apr. 16, 2010	5.54	50,000	-
Apr. 17, 2008	Apr. 17, 2010	5.52	50,000	-
Apr. 18, 2008	Apr. 18, 2010	5.50	50,000	-

## Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Apr. 21, 2008	Apr. 21, 2009	5.45	₩ 50,000	₩ -
Apr. 24, 2008	Oct. 24, 2009	5.45	10,000	-
Apr. 24, 2008	Apr. 24, 2010	5.47	40,000	-
Apr. 29, 2008	Apr. 29, 2010	5.42	10,000	-
Apr. 30, 2008	Apr. 30, 2010	5.39	50,000	-
May 08, 2008	May 08, 2010	5.56	10,000	-
May 14, 2008	Nov. 14, 2009	5.75	50,000	-
May 15, 2008	May 15, 2010	5.80	20,000	-
May 16, 2008	May 16, 2011	5.87	100,000	-
May 22, 2008	May 22, 2011	5.93	100,000	-
May 23, 2008	May 23, 2011	5.92	30,000	-
May 26, 2008	May 26, 2010	5.87	10,000	-
May 26, 2008	Nov. 26, 2010	5.92	10,000	-
May 27, 2008	Nov. 27, 2009	5.79	200,000	-
May 27, 2008	May 27, 2010	5.85	20,000	-
May 28, 2008	May 28, 2010	5.82	10,000	-
May 29, 2008	May 29, 2010	5.90	50,000	-
May 30, 2008	May 30, 2009	5.63	20,000	-
May 30, 2008	Nov. 30, 2009	5.85	70,000	-
Jun. 03, 2008	Jun. 03, 2010	5.98	20,000	-
Jun. 05, 2008	Jun. 05, 2009	5.68	40,000	-
Jun. 05, 2008	Jun. 05, 2010	5.98	60,000	-
Jun. 12, 2008	Jun. 12, 2009	5.89	20,000	-
Jun. 12, 2008	Jun. 12, 2010	6.17	70,000	-
Jun. 16, 2008	Jun. 16, 2009	5.90	10,000	-
Jun. 16, 2008	Jun. 16, 2010	6.20	40,000	-
Jun. 18, 2008	Jun. 18, 2009	5.85	20,000	-
Jun. 18, 2008	Dec. 18, 2009	6.08	40,000	-
Jun. 19, 2008	Dec. 19, 2009	6.11	40,000	-
Jun. 19, 2008	Jun. 19, 2010	6.17	10,000	-
Jun. 24, 2008	Jun. 24, 2009	6.00	30,000	-
Jun. 24, 2008	Dec. 24, 2009	6.28	20,000	-
Jun. 26, 2008	Dec. 26, 2009	6.25	20,000	-
Jun. 26, 2008	Jun. 26, 2010	6.31	30,000	-
Jul. 01, 2008	Jul. 01, 2009	6.02	10,000	-
Jul. 03, 2008	Jul. 03, 2009	6.11	10,000	-
Jul. 04, 2008	Jul. 04, 2009	6.16	10,000	-
Jul. 04, 2008	Jul. 04, 2010	6.60	10,000	-
Jul. 16, 2008	Jan. 16, 2010	6.87	40,000	-
Jul. 17, 2008	Jul. 17, 2009	6.54	110,000	-
Jul. 17, 2008	Jul. 17, 2010	6.92	10,000	-
Jul. 18, 2008	Jan. 18, 2010	6.80	200,000	-
Aug. 19, 2008	Aug. 19, 2009	6.03	120,000	-
Aug. 21, 2008	Aug. 21, 2010	7.17	180,000	-
Sep. 01, 2008	Sep. 01, 2010	7.05	130,000	-
Sep. 04, 2008	Sep. 04, 2010	7.20	120,000	-
Sep. 11, 2008	Sep. 11, 2009	6.64	70,000	-
Sep. 12, 2008	Sep. 12, 2009	6.62	50,000	-
Sep. 26, 2008	Sep. 26, 2009	7.10	80,000	-
Sep. 29, 2008	Sep. 29, 2009	7.10	100,000	-
Oct. 20, 2008	Oct. 20, 2009	7.60	45,000	-
Oct. 29, 2008	Oct. 29, 2011	7.73	200,000	-
Dec. 15, 2008	Dec. 15, 2009	6.20	200,000	-
			₩ 8,191,000	₩ 6,780,000

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

3) Finance debentures issued in foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In thousands of U.S. dollars, in millions of Won):

First underwriter	Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2008	-	₩ -	₩ 45,034 (US\$48,000)
DBS	Jan. 25, 2007	Jan. 25, 2008	-	-	32,447 (US\$34,585)
BOA	Feb. 16, 2007	Feb. 19, 2008	-	-	18,760 (US\$19,999)
HSBC	Mar. 14, 2007	Mar. 14, 2008	-	-	46,901 (US\$49,998)
Calyon	Jul. 20, 2007	Jul. 20, 2012	4.83	377,250 (US\$300,000)	281,460 (US\$300,000)
NAB (*1)	Oct. 15, 2007	Oct. 15, 2009	4.79	32,450 (US\$25,800)	24,052 (US\$25,640)
MIZUHO	Oct. 29, 2007	Oct. 29, 2009	3.88	62,875 (US\$50,000)	46,910 (US\$50,000)
MIZUHO	Oct. 30, 2007	Oct. 30, 2009	3.85	25,150 (US\$20,000)	18,764 (US\$20,000)
NAB (*2)	Nov. 05, 2007	Nov. 05, 2008	-	-	45,699 (US\$48,716)
NAB (*3)	Nov. 07, 2007	Nov. 07, 2008	-	-	19,242 (US\$20,512)
SMBC, Tokyo (*4)	Sep. 12, 2008	Sep. 07, 2011	0.90	139,389 (US\$110,850)	-
				₩ 637,114 (US\$506,650)	₩ 579,269 (US\$617,450)

(\*1) Issued in Hong Kong dollar (HKD) amounting to HKD 200 million

(\*2) Issued in Hong Kong dollar (HKD) amounting to HKD 380 million

(\*3) Issued in Hong Kong dollar (HKD) amounting to HKD 160 million

(\*4) Issued in Yen (JPY) amounting to JPY 10,000 million

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

4) Subordinated debentures as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Debentures in Won:					
General sale (*1)	May 28, 2001	Feb. 28, 2007	-	₩ 387	₩ 2,009
General sale (*1)	Oct. 28, 2002	Jan. 28, 2008	-	290	200,000
General sale (*1)	Mar. 28, 2003	Dec. 28, 2008	-	16,432	242,504
Underwriting sale (*2)	Oct. 21, 2004	Oct. 21, 2014	5.10	170,000	170,000
General sale (*2)	Nov. 28, 2004	Nov. 28, 2014	4.90	80,000	80,000
Underwriting sale (*2)	Mar. 13, 2008	Mar. 13, 2018	6.11	250,000	-
General sale (*2)	Mar. 28, 2008	Mar. 28, 2018	6.20	50,000	-
General sale	Nov. 21, 2008	May 21, 2014	7.70	60,860	-
General sale	Nov. 24, 2008	May 24, 2014	7.70	32,060	-
General sale	Nov. 25, 2008	May 25, 2014	7.70	27,570	-
General sale	Nov. 26, 2008	May 26, 2014	7.70	40,880	-
General sale	Nov. 27, 2008	May 27, 2014	7.70	37,651	-
General sale	Nov. 28, 2008	May 28, 2014	7.70	78,926	-
General sale	Dec. 01, 2008	Jun. 01, 2014	7.70	22,053	-
General sale	Dec. 19, 2008	Jun. 19, 2014	7.80	250,000	-
General sale	Dec. 22, 2008	Jun. 22, 2014	7.30	34,060	-
General sale	Dec. 23, 2008	Jun. 23, 2014	7.30	18,690	-
General sale	Dec. 24, 2008	Jun. 24, 2014	7.30	23,948	-
General sale	Dec. 26, 2008	Jun. 26, 2014	7.30	32,979	-
General sale	Dec. 29, 2008	Jun. 29, 2014	7.30	93,487	-
General sale	Dec. 30, 2008	Jun. 30, 2014	7.80	46,836	-
Underwriting sale				1,367,109	694,513
Debentures in foreign currencies:					
CITI group & HSBC (*2, *3)	Jun. 10, 2005	Jun. 10, 2015	5.00	390,059 (US\$310,186)	281,859 (US\$300,426)
				₩ 1,757,168	₩ 976,372

(\*1) The balance amount was not redeemed at the maturity date, and after the maturity date, interest is not paid.

(\*2) After 5 years from issuance date, the optional early redemption right can be exercised by the Bank.

(\*3) The first underwriters

In addition, certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Loss on foreign currency transactions amounting to ₩12,328 million was accounted for in connection to such contracts for the year ended December 31, 2008.

( 7 ) As of December 31, 2008, Hybrid Tier 1 bond was as follows (Unit: In millions):

Classification	Issued period (*2)	Annual interest rate (%) (*3)	Balance
Hybrid debentures 1 <sup>st</sup> (*1)	May 28, 2003 ~ May 28, 2033	8.50	₩ 250,000

(\*1) After 5 years from issuance date, call option can be exercised under the authorization of the Governor of the Financial Supervisory Service.

(\*2) After expiration, the bond can be extended under the same terms.

(\*3) After 10 years from issuance date, the interest rate increases to 10.0%.



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 8 ) Term structure of borrowings as of December 31, 2008 was as follows (Unit: In millions):

Classification	Borrowing in Won	Borrowing in foreign currencies	Debentures in Won	Debentures in foreign currencies	Total
Due in less than one year	₩ 868,999	₩ 6,853,393	₩ 3,788,109	₩ 120,475	₩ 11,630,976
Due from one to two years	83,532	143,202	3,990,000	-	4,216,734
Due from two to three years	77,941	-	430,000	139,389	647,330
Due from three to five years	316,306	-	-	377,250	693,556
Due after five years	412,403	-	1,600,000	390,059	2,402,462
	₩ 1,759,181	₩ 6,996,595	₩ 9,808,109	₩ 1,027,173	₩ 19,591,058

## 13. Other liabilities

( 1 ) Other liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Accounts payable (see Note 17)	₩ 5,341,267	₩ 6,225,943
Accrued expenses (see Note 17)	965,113	718,028
Unearned revenues	100,079	83,812
Guarantee money received	161,468	136,849
Accrued payable foreign exchange	204,441	337,041
Deferred income tax liabilities (see Note 21)	89,522	176,823
Derivatives instruments liabilities (see Note 17)	4,561,680	805,025
Due to trust accounts	965,746	718,049
Accrued severance benefits	291,933	263,806
Pension benefit	4,524	-
Less: Assets under management of pension benefits	(2,925)	-
Less: Funds converted to National Pension	(684)	(740)
Less: Due to retirement insurance	(228,630)	(184,171)
Liability reserve for acceptances and guarantees	57,601	55,179
Liability reserve for unused credit limit	163,194	179,282
Allowance for other liabilities (see Note 17)	130,537	107,764
Sundry liabilities	1,597,606	1,767,519
	₩ 14,402,472	₩ 11,390,209

( 2 ) Accrued severance benefits

A. The changes in accrued severance benefits for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Beginning	₩ 263,806	₩ 222,587
Provision (*1)	44,978	57,344
Payment (*2)	(18,179)	(16,262)
Foreign currencies translation	1,328	137
	291,933	263,806
Pension benefits payables	4,524	-
Assets under management of pension benefits	(2,925)	-
Funds converted to National Pension	(684)	(740)
Due to retirement insurance	(228,630)	(184,171)
	₩ 64,218	₩ 78,895

(\*1) The difference from severance benefits in the income statement amounting to ₩1,923 million was provision on accounts payable of severance pension.

(\*2) The payment of severance benefits amounting to ₩143 million for the year ended December 31, 2008 is accounted as accounts payable.

As of December 31, 2008, parts of severance benefits were contributed to pension funds of Samsung Life Insurance Co., Ltd.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

B. The pension benefits payables and assets under management of pension benefits were ₩4,524 million and ₩2,925 million, respectively. The Bank reserved ₩1,923 million for accrued severance benefits for the year ended by December 31, 2008.

As of December 31, 2008, the assets under management of pension benefits were as follows (Unit: In millions):

Classification	Percentage (%)
Cash and due from banks	14.78
Securities	85.22
	100.00

## ( 3 ) Liability reserve for acceptances and guarantees

1) Acceptances and guarantees as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Confirmed acceptances and guarantees in Won:		
Payment guarantee for issuance of debentures	₩ 4,478	₩ 2,253
Acceptances for letters of guarantee for importers	-	719
Payment guarantee for loans	93,214	70,658
Others	741,618	1,650,183
	839,310	1,723,813
Confirmed acceptances and guarantees in foreign currencies:		
Acceptances on letters of credit	391,055	275,546
Acceptances for letters of guarantee for importers	52,841	116,922
Credit derivatives-sold	-	47,489
Others	6,151,523	3,136,768
	6,595,419	3,576,725
Unconfirmed acceptances and guarantees:		
Letters of credit	3,781,918	4,610,604
Others	314,203	93,359
	4,096,121	4,703,963
Bills endorsed (see Note 17)	63,533	62,165
	₩ 11,594,383	₩ 10,066,666

2) The classification of asset quality for acceptances and guarantees and liability reserve for acceptances and guarantees as of December 31, 2008 and 2007 were as follows (Unit: In millions):

### <2008>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩ 7,423,853	₩ 6,763	₩ 940	₩ 2,465	₩ 708	₩ 7,434,729	₩ 48,698
Unconfirmed acceptances	4,078,889	17,136	20	70	6	4,096,121	8,363
Bills endorsed	63,533	-	-	-	-	63,533	540
	₩11,566,275	₩ 23,899	₩ 960	₩ 2,535	₩ 714	₩11,594,383	₩ 57,601

### <2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩5,292,158	₩ 7,485	₩ -	₩ 748	₩ 147	₩5,300,538	₩ 46,134
Unconfirmed acceptances	4,698,171	3,159	2,521	35	77	4,703,963	8,516
Bills endorsed	62,165	-	-	-	-	62,165	529
	₩10,052,494	₩ 10,644	₩ 2,521	₩ 783	₩ 224	₩10,066,666	₩ 55,179

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

3) Acceptances and guarantees, by industry, except for the portion of overseas branches as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By industry	Balance	Percentage (%)
Manufacturing	₩ 3,855,445	56.28
Construction	1,278,689	18.66
Wholesale/retail	465,165	6.79
Finance	362,640	5.29
Electricity, gas and water supply	292,578	4.27
Others	596,281	8.71
	6,850,798	100.00
Confirmed acceptance and guarantees in overseas branches	583,931	
	₩ 7,434,729	

<2007>

By industry	Balance	Percentage (%)
Manufacturing	₩ 3,244,398	64.07
Construction	640,519	12.65
Wholesale/retail & service	577,458	11.40
Finance	284,271	5.61
Telecommunication	12,718	0.25
Others	304,836	6.02
	5,064,200	100.00
Confirmed acceptance and guarantees in overseas branches	236,338	
	₩ 5,300,538	

4) Confirmed acceptances and guarantees in foreign currencies, by country, as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

<2008>

By country	Confirmed acceptances and guarantees in foreign currencies (*1)	Translation into Won	Percentage (%)
Korea	\$ 4,755,284	₩ 5,979,771	90.67
USA	106,869	134,387	2.04
France	75,122	94,466	1.43
United Kingdom	51,553	64,828	0.98
Germany	46,559	58,548	0.89
Others	209,479	263,419	3.99
	\$ 5,244,866	₩ 6,595,419	100.00

(\*1) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

<2007>

By country	Confirmed acceptances and guarantees in foreign currencies (*1)	Translation into Won	Percentage (%)
Korea	\$ 3,370,918	₩ 3,162,595	88.42
Taipei	75,633	70,959	1.98
France	69,252	64,972	1.82
USA	48,806	45,790	1.28
Singapore	40,480	37,978	1.06
Others	207,238	194,431	5.44
	\$ 3,812,327	₩ 3,576,725	100.00

(\*1) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

5) The percentage of liability reserve for acceptances and guarantees as of December 31, 2008, 2007 and 2006 was as follows (Unit: In millions):

Classification	Acceptances and guarantees	Liability reserve	Percentage (%)
2008	₩ 11,594,383	₩ 57,601	0.50
2007	10,066,666	55,179	0.55
2006	6,338,062	40,617	0.64

## ( 4 ) Liability reserve for unused credit limit

The calculation of liability reserve for unused credit limit as of December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 14,211,031	₩ 2,081,747	₩ 6,064,418	₩ 93,162
Loans to enterprise (*1)	76,503,742	42,880,868	9,544,473	84,807
Loans to household	3,634,249	1,595,976	410,084	4,101
Loans to public and others	11,740	3,463	1,865	16
	₩ 94,360,762	₩ 46,562,054	₩ 16,020,840	182,086
Merchant Banking Account (*2)				(18,892)
Liability reserve for unused credit limit				₩ 163,194

(\*1) Unused credit limit of merchant banking account was included.

(\*2) It was included in other liabilities of merchant banking account (see Note 14).

<2007>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 15,508,197	₩ 2,006,812	₩ 6,750,429	₩ 106,962
Loans to enterprise (*1)	65,471,645	25,102,582	9,762,067	85,093
Loans to household	3,405,898	1,429,844	398,239	3,982
Loans to public and others	133,939	83,246	10,139	86
	₩ 84,519,679	₩ 28,622,484	₩ 16,920,874	196,123
Merchant Banking Account (*2)				(16,841)
Liability reserve for unused credit limit				₩ 179,282

(\*1) Unused credit limit of merchant banking account was included.

(\*2) It was included in other liabilities of merchant banking account.

## ( 5 ) Allowance for other liabilities

Allowance for other liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Reserve for money-back point & yes-point	₩ 25,129	₩ 21,203
Reserve for litigation (see Note 17)	9,017	51,999
Reserve for employees' accident (*1)	2,047	600
Compensation to customers related to Won & Yen swap (*2)	15,962	17,741
Provision for severance and early retirement benefits (*3)	16,464	12,172
Reserve for derivatives assets (*4)	56,153	-
Others (*5)	5,765	4,049
	₩ 130,537	₩ 107,764

(\*1) Provision was made for 4 suspense payment, which occurred in connection with employees' illegal act such as embezzlement.

(\*2) In addition, NTS notified the Bank and its customers of the tax on interest income on Won & Yen swap from 2003 to 2005. The Bank compensated its customers with the condition of entrusting tax appeal procedures. The Bank accounted it as an allowance for other liabilities.

(\*3) The Bank reserved the provision for severance and early retirement benefits for voluntary retirees who have worked for more than 15 years and are more than 40 years old.

(\*4) The Bank reserved the allowance for possible derivatives losses by currency options.

(\*5) The main change is that the Bank were charged ₩1,949 million by Fair Trade Commission in violation of collusion on establishing exchange commission and raising commission on giro.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## ( 6 ) Sundry liabilities

Sundry liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Suspense receipt	₩ 32,955	₩ 250,355
Withholding taxes	36,921	31,329
Agency business accounts	90,848	93,251
Agency	798,615	820,170
Credit control deposits	577	2,150
Guarantee deposits for securities subscription	16,481	14,999
Domestic exchange settlements credits	607,928	536,596
Domestic remittance payable	12,655	16,896
Others	626	1,773
	₩ 1,597,606	₩ 1,767,519

## 14. Merchant banking account liabilities

( 1 ) Merchant banking accounts liabilities as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Deposits	₩ 3,464,502	₩ 2,121,888
Other liabilities	31,115	25,076
	₩ 3,495,617	₩ 2,146,964

( 2 ) Deposits as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	Annual interest rate (%) Dec. 31, 2008	2008	2007
Notes payable (*1)	2.00 ~ 5.01	₩ 3,265,838	₩ 1,965,862
Due to CMA	3.69 ~ 3.90	198,664	156,026
		₩ 3,464,502	₩ 2,121,888

(\*) Notes payable matures within a maximum of one year from issue date and bears interest at variable rates according to market conditions and note terms.

( 3 ) Other liabilities as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Accrued expenses	₩ 1,716	₩ 1,009
Unearned income	10,507	7,226
Liability reserve	18,892	16,841
	₩ 31,115	₩ 25,076

( 4 ) Operating expenses of merchant banking accounts for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Interest expenses	₩ 152,626	₩ 116,075
Transfer to reserve of allowance for bad debts	5,323	-
Transfer to reserve for unused credit limit	2,051	6,932
Others	-	976
	₩ 160,000	₩ 123,983

## 15. Shareholders' equity

( 1 ) Capital stock

Capital stock as of December 31, 2008 and 2007 was as follows (Unit: in Won, shares):

Classification	2008	2007
Shares authorized	1,000,000,000	1,000,000,000
Per share	₩ 5,000	₩ 5,000
Shares issued	644,906,826	644,906,826
Common stocks	₩ 3,224,534 million	₩ 3,224,534 million

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## ( 2 ) Capital surplus

The amount of capital surplus as of December 31, 2008 and 2007 was transferred from stock option (accounted for as capital adjustment) since it lapsed as it was not exercised.

## ( 3 ) Capital adjustments

Changes in capital adjustments for the year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning	Increase	Decrease	Ending
Stock option	₩ (5,722)	₩ -	₩ 1,297	₩ (4,425)

Based on revised SKAS No. 15, the valuation of securities using the equity method on oversea subsidiaries as of December 31, 2007 was reclassified to capital surplus (capital adjustment in case of below zero) (See Note 2).

## ( 4 ) Accumulated other comprehensive income

The changes in accumulated other comprehensive income for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Changes	Disposal	Deferred income tax	Ending
Gain (loss) on valuation of available-for-sale securities	₩ 1,090,618	₩ (1,103,249)	₩ (2,372)	₩ 325,787	₩ 310,784
Gain (loss) on valuation of held-to-maturity securities	(363)	(2)	94	(48)	(319)
Gain on valuation of securities using the equity method	-	4,729	-	(1,040)	3,689
Gain on valuation of negative securities using the equity method	(240)	(41)	-	(9)	(290)
Gain on revaluation of tangible assets	-	558,124	-	(122,787)	435,337
	₩ 1,090,015	₩ (540,439)	₩ (2,278)	₩ 201,903	₩ 749,201

## ( 5 ) Statements of comprehensive income

Comprehensive income consists of all changes in equity during a period from transactions and other events except those resulting from investments by owners and distributions to owners. Comprehensive income for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

Classification	2008	2007
Net income	₩ 782,618	₩ 960,945
Effect of exchange rate fluctuation	19,820	2,310
Adjustments using the equity method and others	1,233	-
Other comprehensive income (loss):		
Gain (loss) on valuation of available-for-sale securities	(1,105,621)	(40,264)
Gain on valuation of held-to-maturity securities	92	566
Gain on valuation of securities using the equity method	4,729	1,282
Gain on valuation of negative securities using the equity method	(41)	-
Gain on revaluation of tangible assets	558,124	-
Less: Effect of income tax	201,903	10,564
Comprehensive income	₩ 462,857	₩ 935,403

## ( 6 ) Retained earnings

Retained earnings as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Legal reserve (*1)	₩ 292,600	₩ 196,500
Other reserves (*2)	59,218	38,826
Unappropriated retained earnings	2,341,450	2,105,706
	₩ 2,693,268	₩ 2,341,032

(\*1) The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent 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) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10 percent 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. In addition, Singapore and Hanoi branches' statutory reserves are included in other statutory reserves.



## 16. Share-based payment

### ( 1 ) Stock options

The details of the stock options as of December 31, 2008 were as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised	Stock option outstanding	Exercise price	Exercise period
Aug. 26, 2002	725,000	(421,850)	(303,150)	-	₩ 6,300	Aug. 27, 2005-Aug. 26, 2008
Mar. 31, 2003 (*)	101,401	-	(80,053)	21,348	13,266	Apr. 01, 2006-Mar. 31, 2009
Sep. 04, 2003 (*)	53,369	-	-	53,369	15,533	Sep. 05, 2006-Sep. 04, 2009
Feb. 13, 2004	2,390,000	(567,770)	(1,427,510)	394,720	7,000	Feb. 14, 2006-Feb. 13, 2009
Mar. 07, 2005	1,355,000	(344,895)	(378,225)	631,880	8,800	Mar. 08, 2007-Mar. 07, 2010
Jun. 29, 2005	200,000	(63,230)	(26,340)	110,430	9,000	Jun. 30, 2007-Jun. 29, 2010
Mar. 07, 2006	400,000	(112,690)	-	287,310	13,300	Mar. 08, 2008-Mar. 07, 2011
Aug. 01, 2006	200,000	(42,000)	-	158,000	11,900	Aug. 02, 2008-Aug. 01, 2011
Mar. 08, 2007	1,090,000	(264,990)	-	825,010	13,900	Mar. 09, 2009-Mar. 08, 2012
Mar. 29, 2007	630,000	(221,450)	-	408,550	14,500	Mar. 30, 2009-Mar. 29, 2012
Aug. 10, 2007	380,000	(84,630)	-	295,370	13,900	Aug. 11, 2009-Aug. 10, 2012
Mar. 11, 2008	510,000	(104,000)	-	406,000	13,000	Mar. 12, 2010-Mar. 11, 2013
Aug. 01, 2008	180,000	(24,330)	-	155,670	13,500	Aug. 02, 2010-Aug. 01, 2013
	8,214,770	(2,251,835)	(2,215,278)	3,747,657		

(\*) Granted from KEBC prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of cash equivalent to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria of the number of exercisable shares.

The intrinsic value of compensation cost granted before December 31, 2006 is the difference between the market price and the exercise price pursuant to Interpretations on SKAS 39-35 - *Accounting for Stock Options*, and the fair value of compensation cost granted after January 1, 2007, is estimated by option pricing models pursuant to SKAS No. 22 - *Share-Based Payment*. As a result, the pricing models of stock option of the Bank are categorized as the intrinsic value pricing model and the fair value pricing model. The details of these models as of December 31, 2008 were as follows (Unit: In Won):

#### <Intrinsic value pricing model>

Grant date	Market price (*2)	Exercise price	Intrinsic value
Mar. 31, 2003 (*)	6,911	13,266	-
Sep. 04, 2003 (*)	6,911	15,533	-
Feb. 13, 2004	6,911	7,000	-
Mar. 07, 2005	6,911	8,800	-
Jun. 29, 2005	6,911	9,000	-
Mar. 07, 2006	6,911	13,300	-
Aug. 01, 2006	6,911	11,900	-

(\*)1) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

(\*)2) Compensation price is measured as average price among the averages for two months, for a month and for a week's stock prices in accordance with the Bank's pricing method.

#### <Fair value pricing model – Black-Scholes Model>

Grant date	Risk free rate (%)	Expected exercise period (year) (*)	Volatility of the underlying stock price (%) (*)	Expected dividend rate (%) (*)	Exercised price	Fair value
Mar. 08, 2007	3.35	4.02	46.02	6.31	₩ 13,900	₩ 281
Mar. 29, 2007	3.35	4.02	45.65	6.31	14,500	254
Aug. 10, 2007	3.38	4.02	43.74	6.31	13,900	303
Mar. 11, 2008	3.45	4.02	42.52	6.31	13,000	414
Aug. 01, 2008	3.52	4.02	41.39	6.31	13,500	403

(\*)1) The expected exercise period is measured based on the possibility of exercise of the right in the past.

(\*)2) The volatility of the underlying stock price is measured based on the data in the past.

(\*)3) The expected dividend rate is measured based on the average in 2006 and 2007.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

The changes in long-term accrued expenses recognized for stock option for year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Addition	Deduction <sup>(*)</sup>	Ending balance
Long-term accrued expenses	₩ 17,780	₩ 46	₩ (17,507)	₩ 319

(\*) The deduction by exercise as of December 31, 2008 is ₩5,599 million.

## ( 2 ) The equity linked special incentive (Rose bonus)

The Bank granted the equity linked special incentive to employees for the purpose of motivation to improve long-term performance. The equity linked special incentive as of December 31, 2008 is as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised <sup>(*)</sup>	Stock option outstanding	Exercise price	Exercise period
Jul. 15, 2005	3,024,400	(55,206)	(2,778,194)	191,000	₩ -	Jul. 15, 2007~Jul. 14, 2010
Dec. 21, 2006	1,496,510	(28,258)	(5,522)	1,462,730	-	Dec. 21, 2008~Dec. 20, 2011
Dec. 12, 2007	614,800	(5,254)	(626)	608,920	-	Dec. 12, 2009~Dec. 11, 2012
	5,135,710	(88,718)	(2,784,342)	2,262,650		

(\*) It can be exercised if an employee resigned within two years except for death, retirement age, position change and other cases imputable to an employee.

The equity linked special incentive is cash settlement transaction. It can be exercised since two years after grant date for three years.

The intrinsic value of "Rose bonus" granted before December 31, 2006 is the difference between the market price and the exercise price pursuant to Interpretations on SKAS 39-35 - *Accounting for Stock Options*, and the fair value of "Rose bonus" granted after January 1, 2007, is estimated by option pricing models pursuant to SKAS No.22 - *Share-Based Payment*. As a result, the pricing models of stock option of the Bank are categorized as the intrinsic value pricing model and the fair value pricing model. The details of these models as of December 31, 2008 were as follows (Unit: In Won):

### <Intrinsic value pricing model>

Grant date	Rose price <sup>(*)</sup>	Exercise price	Intrinsic value
Jul. 15, 2005	₩ 9,700	₩ -	₩ 9,700
Dec. 21, 2006	9,700	-	9,700

(\*) The Rose price is measured as weighted average price (7: 5) of the average stock price for previous five days and net asset value of most recent quarterly settlement as of the last day of the previous month of December 31, 2008.

### <Fair value pricing model – Binomial Model>

Grant date	Risk free rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%) <sup>(*)</sup>	Expected dividend rate (%) <sup>(*)</sup>	Exercised price	Fair value
Dec. 12, 2007	3.58	5	39.07	-	₩ -	₩ 9,700

(\*) The volatility of the underlying stock price is measured based on the volatility in the past.

(\*) The expected dividend rate is zero, since a grantee of "Rose bonus" has the right to be provided with dividends from grant date to excise date.

The changes in long-term accrued expenses recognized for "Rose bonus" for year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Addition	Deduction	Ending balance
Long-term accrued expenses	₩ 17,385	₩ 4,728	₩ (2,960)	₩ 19,153

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 17. Contingencies and commitments

### ( 1 ) Derivatives

The notional amounts outstanding for derivative contracts as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Type (*)	2008			2007		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards	₩36,046,100	₩ -	₩36,046,100	₩42,684,356	₩ -	₩42,684,356
Currency futures	1,197,281	-	1,197,281	2,799,874	-	2,799,874
Currency swaps	10,447,110	-	10,447,110	6,640,534	-	6,640,534
Currency options purchased	5,598,417	-	5,598,417	6,477,700	-	6,477,700
Currency options sold	5,931,865	-	5,931,865	8,762,723	-	8,762,723
	59,220,773	-	59,220,773	67,365,187	-	67,365,187
Interest rate:						
Interest rate futures	3,232,411	-	3,232,411	779,425	-	779,425
Interest rate swaps	36,980,167	578,450	37,558,617	26,064,128	426,881	26,491,009
	40,212,578	578,450	40,791,028	26,843,553	426,881	27,270,434
Index:						
Stock index futures	3,893	-	3,893	2,178	-	2,178
Stock index purchased	-	-	-	37,204	-	37,204
Stock index sold	48,155	-	48,155	92,389	-	92,389
	52,048	-	52,048	131,771	-	131,771
Credit:						
Credit derivatives purchased	35,000	-	35,000	-	-	-
	35,000	-	35,000	-	-	-
	₩99,520,399	₩ 578,450	₩100,098,849	₩94,340,511	₩ 426,881	₩94,767,392

(\*) For transaction between Won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate based on foreign currencies purchased at balance sheet dates.

The details of derivatives as of December 31, 2008, and the valuation of derivatives for the year ended December 31, 2008 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 2,751,439	₩1,747,945	₩ -	₩ -	₩ 2,751,439	₩1,747,945	₩2,775,886	₩ 1,755,534
Currency swaps	539,639	1,420,104	-	-	539,639	1,420,104	522,685	1,367,230
Currency options purchased	648,772	22,393	-	-	648,772	22,393	761,153	-
Currency options sold	25,071	484,396	-	-	25,071	484,396	-	624,508
	3,964,921	3,674,838	-	-	3,964,921	3,674,838	4,059,724	3,747,272
Interest:								
Interest rate swaps	646,709	816,619	12,328	7,818	659,037	824,437	612,650	802,683
Index:								
Stock index purchased	-	-	-	-	-	-	-	-
Stock index sold	7,999	1,980	-	-	7,999	1,980	-	11,725
Credit:								
Credit derivatives purchased	1,556	-	-	-	1,556	-	1,800	-
	₩ 4,621,185	₩ 4,493,437	₩ 12,328	₩ 7,818	₩ 4,633,513	₩ 4,501,255	₩ 4,674,174	₩ 4,561,680

The Bank uses various derivative instruments for its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates.

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and bills discounted of merchant banking. The Bank recognized ₩7,852 million of gains on valuation of derivatives of securities and ₩12,328 million of losses on valuation of derivatives of debentures for the year ended December 31, 2008. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

In addition, with the revision of Banking Supervisory Detailed Enforcement Regulations, the credit derivatives accounted as acceptance and guarantees were recategorized as derivatives from this period.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

The details and the valuation of derivatives for the year ended December 31, 2007 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 373,915	₩ 340,937	₩ -	₩ -	₩ 373,915	₩ 340,937	₩ 377,600	₩ 375,544
Currency swaps	56,970	51,191	-	-	56,970	51,191	154,324	78,804
Currency options purchased	48,298	12,540	-	-	48,298	12,540	75,422	-
Currency options sold	21,417	36,603	-	-	21,417	36,603	-	94,368
	500,600	441,271	-	-	500,600	441,271	607,346	548,716
Interest:								
Interest rate swaps	147,109	212,952	9,569	3,452	156,678	216,404	178,479	233,678
Interest rate options purchased	-	-	-	-	-	-	-	-
Interest rate options sold	-	-	-	-	-	-	-	-
	147,109	212,952	9,569	3,452	156,678	216,404	178,479	233,678
Index:								
Stock index purchased	-	1,336	-	-	-	1,336	1,014	-
Stock index sold	3,617	34	-	-	3,617	34	-	22,631
Others	-	-	-	-	-	-	-	-
	3,617	1,370	-	-	3,617	1,370	1,014	22,631
	₩ 651,326	₩ 655,593	₩ 9,569	₩ 3,452	₩ 660,895	₩ 659,045	₩ 786,839	₩ 805,025

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, deposit, debentures and bills discounted of merchant banking. The Bank recognized ₩3,452 million of gains on valuation of derivatives of securities and ₩9,293 million and ₩276 million of losses on valuation of derivatives of securities and debentures, respectively, for the year ended December 31, 2007. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

( 2 ) The Bank holds written-off loans, of which the claim for borrowers and guarantors have not been terminated, amounting to ₩1,416,543 million and ₩1,167,728 million as of December 31, 2008 and 2007, respectively.

( 3 ) Endorsed notes with collateral amounted to ₩63,533 million and ₩62,165 million as of December 31, 2008 and 2007, respectively. Endorsed notes without collateral held at the merchant banking accounted amount to ₩9,450,454 million and ₩8,095,294 million as of December 31, 2008 and 2007, respectively.

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

- When it is considered impossible to collect the loans and interest due to delay in repayment of loans and interest over six months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation.

As of December 31, 2008, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩1,868 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

( 5 ) Loans sold to asset backed securitization (ABS) (Unit: In millions)

Classification	Date	Value of loans	Sale price	Subordinated debentures (*1)
KEB 12 <sup>th</sup> Securitization Specialty Co., Ltd.	Nov. 14, 2005	₩ 178,587	₩ 136,000	₩ -
KEB 13 <sup>th</sup> Securitization Specialty Co., Ltd.	May 08, 2006	121,173	92,000	-
KEB 14 <sup>th</sup> Securitization Specialty Co., Ltd.	Nov. 10, 2006	92,087	74,000	-
KEB 15 <sup>th</sup> Securitization Specialty Co., Ltd.	Jun. 20, 2007	121,121	90,000	-
KEB 16 <sup>th</sup> Securitization Specialty Co., Ltd. (*2)	Jun. 24, 2008	105,206	77,000	22,128

(\*1) The subordinated debentures are included in sale price.

(\*2) The gains on disposal of loans have been recognized amounting to ₩3,219 million (see Note 5).

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 6 ) The Bank has pending litigation as plaintiff or defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩354,234 million (2,497 cases) and ₩82,779 million (118 cases), respectively, as of December 31, 2008. The Bank recognized ₩9,017 million of provisions related to these lawsuits (see Note 13).

In addition, Olympus Capital KEB Cards Ltd. and others ("the applicants") ask for arbitration of compensation of USD 300 million against the Bank and 5 companies related to Lone Star ("the Banks") through the Court of International Arbitration. The applicants argue that the Banks violated the obligation of shareholders' contract (on December 1, 1999) so the contract of shares transference (on November 20, 2003) is invalid. The result of the arbitration is presently unpredictable.

The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations.

( 7 ) Loans to companies under workout program

The loans to companies under court receivership or workout program amounted to ₩1,251,567 million as of December 31, 2008. Actual loss on these loans can be different from the Bank's estimation.

( 8 ) Debt to equity swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including acceptances and guarantees) and available-for-sale securities convertible to equity securities with respect to Hynix Semiconductor Inc. ("Hynix") as of December 31, 2008 amounted to ₩390,683 million and ₩232,642 million, respectively. As of December 31, 2008, the Bank's loans for Hynix are classified as normal. Joint control procedure for Hynix Semiconductor Inc. was completed on July 12, 2005. Also, the Bank's 37,742 thousand shares of Hynix are restricted for sale until completion of M&A and the gain on valuation of available-for-sale securities amounting to ₩13,126 million is accounted as other comprehensive income as of December 31, 2008.

( 9 ) Debt to equity swap of Hyundai Engineering & Construction Co., Ltd.

As of December 31, 2008, the Bank has loans (including acceptances and guarantees) of ₩285,186 million and available-for-sale securities of ₩702,157 million with respect to Hyundai Engineering & Construction Co., Ltd. and the Bank's loans for Hyundai Engineering & Construction Co., Ltd. are classified as normal. The Bank has 13,778 thousand shares of Hyundai Engineering & Construction Co., Ltd., which are restricted for sale until completion of M&A of Hyundai Engineering & Construction Co., Ltd. With regards to these securities, the gain on valuation of available-for-sale securities amounting to ₩450,018 million is accounted as other comprehensive income as of December 31, 2008.

( 10 ) Commitments related to credit card business

The Bank has entered into trademark license (membership) agreements with Master Card International Incorporated in 1993, VISA International Service Association in 1988 and JCB International Service Association in 1997. The Bank pays and receives certain amounts of fees and commissions in connection to the income and expense incurred pertaining to these agreements.

The Bank has entered into credit card affinity agreements with KDB Capital. Under the agreements, the Bank gives an allocation of the fee income related to the credit card affinities.

( 11 ) Indemnification obligations regarding the share subscription agreement by and between the Bank and the LSF-KEB Holdings, SCA

The Bank shall indemnify LSF-KEB Holdings, SCA for all purchaser losses (\*1) and pay for damages resulting from any breach by the Bank of any of the Bank's covenants (\*2) in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration of indemnification obligations are as follows:

- Purchaser losses, excluding those mentioned below, may be indemnified until 18 months from the Closing Date (\*3).
- Purchaser losses arising as a result of fraud or intentional misrepresentation by the Bank may be indemnified at the Closing Date and continue to be in full force and effective until three years from the Closing Date.
- Purchaser losses related to tax matters may be indemnified at the Closing Date and continue to be in full force effective until five years from the Closing Date.

The Bank's indemnification obligations expire after the duration periods stated above. However, if the Bank receives written claims from Lone Star before the expiration of the durations, regardless of the durations stated above, the Bank's indemnification obligations continue to be in force and effective until the related matter are brought to satisfactory settlement.

The Bank has no indemnification obligation for claims less than ₩100 million. The Bank's indemnification obligation applies to claims exceeding ₩15,000 million cumulative, and only losses exceeding ₩10,000 million may be indemnified.

The total amount of indemnification obligations cannot exceed the LSF-KEB Holdings, SCA's investments in the Bank.

(\*1) Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank's representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank's covenants or agreements in the Share Subscription Agreement.

(\*2) Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.

(\*3) Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 18. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	2008		2007	
	USD Equivalent (*)	Translation into Won	USD Equivalent (*)	Translation into Won
<b>Assets:</b>				
Cash and due from bank:				
Foreign currencies	\$ 344,647	₩ 433,393	\$ 380,800	₩ 357,266
Due from banks in foreign currencies	3,271,195	4,113,528	1,445,261	1,355,944
Securities:				
Trading securities	38,039	47,834	39,686	37,233
Available-for-sale securities	991,087	1,246,292	1,022,510	959,319
Held-to-maturity securities	402,114	505,659	483,349	453,478
Securities using the equity method	306,240	385,098	342,608	321,435
Loans:				
Call loans	1,262,083	1,587,069	2,236,439	2,098,227
Domestic import usance bill	2,184,437	2,746,929	1,857,444	1,742,654
Credit card receivables	3,134	3,941	2,004	1,880
Bills bought in foreign currencies	3,538,032	4,449,075	3,670,686	3,443,838
Bills bought in Won	38,772	48,755	97,949	91,896
Loans in foreign currencies	7,191,051	9,042,746	5,840,945	5,479,975
Factoring receivables	32,359	40,692	191,876	180,018
Private placed bonds	8,559	10,764	8,559	8,030
(Reserve for bad debts)	(46,210)	(58,109)	(47,930)	(44,968)
Other assets:				
Lease assets (financial lease receivable)	-	-	4,856	4,556
<b>Liabilities:</b>				
Deposits:				
Demand deposits in foreign currencies	3,697,305	4,649,361	3,736,579	3,505,658
Savings deposits in foreign currencies	6,425,777	8,080,415	6,128,704	5,749,950
Borrowings:				
Borrowings in foreign currencies	5,563,893	6,996,595	6,343,025	5,951,026
Call money in foreign currencies	2,178,212	2,739,101	819,529	768,882
Bonds in foreign currencies	816,837	1,027,173	917,851	861,128
Other liabilities:				
Accrued expenses in foreign currencies	162,578	204,441	359,242	337,041
Pension benefit	3,598	4,524	-	-
Asset under management of pension benefits	(2,326)	(2,925)	-	-

(\*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

## 19. Operating revenue and expenses

### ( 1 ) Interest revenue and expenses

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expenses as of and for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Average balance	Interest revenue/expense	Rate of interest (%)
<b>Interest revenue:</b>			
Due from banks (*)	₩ 3,093,929	₩ 121,688	3.93
Securities (*)	8,295,368	459,844	5.54
Loans	63,095,756	4,517,574	7.16
	₩ 74,485,053	₩ 5,099,106	6.85
<b>Interest expense:</b>			
Deposits	₩ 47,328,888	₩ 1,780,589	3.76
Borrowings	22,985,511	1,018,046	4.43
	₩ 70,314,399	₩ 2,798,635	3.98

(\*)1) Excluding the average balance and interest revenue of reserve deposits and interest revenue with BOK

(\*)2) Excluding the average balance of stocks and beneficiary certificates



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

<2007>

Classification	Average balance	Interest revenue/expense	Rate of interest (%)
Interest revenue:			
Due from banks (*1)	₩ 1,510,866	₩ 66,138	4.38
Securities (*2)	7,681,849	373,840	4.87
Loans	49,683,702	3,612,561	7.27
	₩ 58,876,417	₩ 4,052,539	6.89
Interest expense:			
Deposits	₩ 38,954,077	₩ 1,251,465	3.21
Borrowings	16,499,922	776,855	4.71
	₩ 55,453,999	₩ 2,028,320	3.66

(\*1) Excluding the average balance of reserve deposits with BOK

(\*2) Excluding the average balance of stocks and beneficiary certificates

## ( 2 ) Gain and loss on trading and valuation of derivatives

Details of gain and loss on trading and valuation of derivatives for the years ended December 31, 2008 and 2007 were as follows (Unit: In million):

Classification	2008	2007
Gain:		
Gain on trading of derivatives	₩ 9,345,319	₩ 1,946,887
Gain on valuation of derivatives	4,641,365	664,347
	₩ 13,986,684	₩ 2,611,234
Loss:		
Loss on trading of derivatives	₩ 9,131,538	₩ 1,931,309
Loss on valuation of derivatives	4,513,583	668,614
	₩ 13,645,121	₩ 2,599,923

## ( 3 ) Commission income and expenses

Details of commission income and expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In million):

Classification	2008	2007
Commission income:		
Commission received	₩ 467,504	₩ 525,532
Guarantee fees received	32,522	20,100
Other commission received	86	933
	₩ 500,112	₩ 546,565
Commission expenses:		
Commission paid	₩ 69,989	₩ 60,601
Other commission paid	170,995	155,117
	₩ 240,984	₩ 215,718

## ( 4 ) Dividend income

Details of dividend income for the years ended December 31, 2008 and 2007 were as follows (Unit: In million):

Classification	2008	2007
Dividend income from trading securities	₩ 1,111	₩ 2,620
Dividend income from available-for-sale securities	74,068	4,493
	₩ 75,179	₩ 7,113

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## ( 5 ) Other operating revenue and expenses

Details of other operating revenue and expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In million):

Classification	2008	2007
Other operating revenue:		
Profit on operating trust account	₩ 35,299	₩ 32,818
Reversal of reserve for guarantees	17,220	-
Reversal of unused credit limit	-	81,619
Operating income of merchant banking accounts	207,833	138,828
Others	59	-
	₩ 260,411	₩ 253,265
Other operating expenses:		
Fund contributions	₩ 141,956	₩ 126,409
Provision for reserve for guarantees	1,698	14,478
Provision for unused credit limit	-	18,006
Provision for other liabilities	37,778	-
Operating expenses of merchant banking accounts	160,000	123,983
	₩ 341,432	₩ 282,876

## ( 6 ) General and administrative expenses

General and administrative expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Salaries	₩ 511,979	₩ 509,754
Expenses for fringe benefits	148,993	134,363
Retirement allowances	46,901	57,344
Honorary retirement	3,534	2,547
Operating expense	190,004	185,439
Depreciation	88,377	96,580
Amortization	31,044	29,782
Taxes	47,124	37,020
Rental	72,926	47,923
Entertainment	12,830	11,738
Advertising	38,530	37,021
	₩ 1,192,242	₩ 1,149,511

## 20. Non-operating income and expenses

Non-operating income and expenses for the years ended December 31, 2008 and 2007 consisted of (In millions):

Classification	2008	2007
Non-operating income:		
Gain on disposal of tangible assets	₩ 198	₩ 2,302
Rental income	2,367	2,186
Gain on securities using the equity method	58,207	54,746
Others	63,778	79,807
	₩ 124,550	₩ 139,041
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 1,883	₩ 3,289
Loss on securities using the equity method	27,858	109
Loss on revaluation of tangible assets	25,346	-
Others	55,803	30,700
	₩ 110,890	₩ 34,098

## 21. Income tax expense

( 1 ) The components of income tax expense for the years ended December 31, 2008 and 2007 were summarized as follows (Unit: In millions):

Classification	2008	2007
Income tax currently payable	₩ 228,994	₩ 468,063
Change in deferred taxes due to temporary differences (*)	(75,430)	62,623
Income taxes directly applied to shareholders' equity	202,853	10,564
Income tax expense in overseas branch	28,455	14,394
	₩ 384,872	₩ 555,644
(*) The ending balance of deferred income tax liabilities due to temporary differences	₩ 89,522	₩ 176,823
The beginning balance of deferred income tax liabilities due to temporary differences	164,952	114,200
Change in deferred taxes due to temporary differences	₩ (75,430)	₩ 62,623

There is difference of ₩11,871 million between the ending balance of deferred taxes liabilities in 2007 amounting to ₩176,823 million and the beginning balance in 2008 amounting to ₩164,952 million due to temporary differences. It is recognized as the beginning balance of deferred taxes liabilities in 2008 due to the result of final tax return of 2007.

( 2 ) The income tax on income before income tax and reconciling items

The income tax on income before income tax and reconciling items for years ended December 31, 2008 and 2007 were as follows (Units: In millions):

Classification	2008	2007
Income before income tax ( ① )	₩ 1,167,490	₩ 1,516,589
Burden of taxation (Current applicable rate: 27.5%)	321,047	417,049
Reconciliation items:		
Non-taxable income (₩43,919 million in 2008 and ₩4,560 million in 2007)	(12,077)	(1,254)
Non deducted expense (₩28,616 million in 2008 and ₩74,444 million in 2007)	7,869	20,472
Tax deduction	(8,840)	(6,559)
Additional payment (refund) of income tax	(4,299)	111,542
Difference due to tax rate	52,717	-
Income tax expense in overseas branch	28,455	14,394
Sum of reconciliation items	63,825	138,895
Income tax expense ( ② )	384,872	555,644
Effective tax rate ( ② ÷ ① )	32.97%	36.64%

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 3 ) Changes in cumulative temporary differences for the year ended December 31, 2008, and deferred income tax assets (liabilities) as of December 31, 2008 were as follows (Unit: In millions):

	Taxable (deductible) temporary differences				Deferred income tax assets (liabilities) <sup>(*)2</sup>			
	Beginning balance	Deduction	Addition	Ending balance <sup>(*)6</sup>	Beginning balance <sup>(*)1</sup>	Deduction	Addition	Ending balance
(Deductible temporary differences)								
Accrued income	₩ (82,531)	₩ 82,531	₩ (82,047)	₩ (82,047)	₩ (22,696)	₩ 22,696	₩ (19,855)	₩ (19,855)
Gains or losses related to derivatives	(35,996)	35,996	(178,692)	(178,692)	(9,899)	9,899	(54,745)	(54,745)
Unearned dividend from SPC <sup>(*)3</sup>	9,781	(9,781)	(1,283)	(1,283)	-	-	(310)	(310)
Gains or losses on valuation of trading securities	134,047	(134,278)	(8,239)	(8,470)	36,863	(36,926)	(1,941)	(2,004)
Gains or losses on valuation of held-to-maturity securities	15,811	(20,613)	(10,615)	(15,417)	4,348	(5,669)	(2,194)	(3,515)
Allowance for other liability <sup>(*)4</sup>	303,887	(303,887)	312,623	312,623	76,694	(76,694)	68,348	68,348
Liability reserve for guarantees	55,179	(55,179)	57,600	57,600	15,174	(15,174)	12,672	12,672
Deferred loan organization fees and costs	25,840	(25,840)	44,278	44,278	7,106	(7,106)	9,741	9,741
Compensation expense for stock option	17,780	(17,780)	319	319	4,890	(4,890)	70	70
Long term accrued expenses	17,385	(17,385)	19,152	19,152	4,781	(4,781)	4,213	4,213
Loss on revaluation of tangible asset	-	-	25,346	25,346	-	-	5,576	5,576
Others	503,641	(37,101)	17,572	484,112	138,501	(10,203)	(20,923)	107,375
	964,824	(503,317)	196,014	657,521	255,762	(128,848)	652	127,566
(Accumulated other comprehensive income) <sup>(*)5</sup>								
Gain on disposal of available-for-sale securities	(1,504,301)	1,504,301	(398,680)	(398,680)	(413,683)	413,683	(87,896)	(87,896)
Loss on valuation of held-to-maturity securities	501	(501)	409	409	138	(138)	90	90
Unrealized gain on investment in affiliates	(23,253)	23,253	(4,357)	(4,357)	(6,395)	6,395	(959)	(959)
Gain on revaluation of tangible asset	-	-	(558,124)	(558,124)	-	-	(122,787)	(122,787)
	(1,527,053)	1,527,053	(960,752)	(960,752)	(419,940)	419,940	(211,552)	(211,552)
(Capital surplus due to using equity method) <sup>(*)5</sup>								
Other capital surplus	-	-	(25,163)	(25,163)	-	-	(5,536)	(5,536)
	₩(562,229)	₩1,023,736	₩(789,901)	₩(328,394)	₩(164,178)	₩ 291,092	₩(216,436)	₩ (89,522)

(\*)1 The difference of retention amounting to ₩2,815 million (₩774 million of the effect of deferred income tax) in the final income tax report for December 31, 2007 was adjusted.

(\*)2 The tax rate used for calculating deferred income tax assets and liabilities is expected tax rate applied to the period for which temporary differences are reversed based on settled tax rate at the balance date (24.2% in 2009 and 22% in or after 2010).

(\*)3 Unearned dividend from SPC consists of deferred tax assets as taxable items. As result of the tax probe, however, it was regarded as suspense receivable on related party; thus, it's possible to be taxable based on the provision of rejection of unfair act and the calculation when the Bank deducts it from income tax. Therefore, it wasn't recognized as deferred tax assets.

(\*)4 The allowance for other liabilities recognized due to collusion about foreign exchange commission amounting to ₩1,949 million (see Note 13) was excluded from expense and will not be able to be deducted from future's taxable income because it was reported as permanent difference. The Bank didn't recognize it as deferred income tax assets as it fails to meet requirement of deferred tax assets recognition. In addition, the allowance for other liabilities involved in acquisition of KEB Credit Service Ltd. amounting to ₩25,000 million wasn't recognized by the same reason as above as of December 31, 2007. It was reversed by winning the appeal case and no temporary difference remains as of December 31, 2008.

(\*)5 The deferred income tax assets and liabilities based on accumulated other comprehensive income are added or deducted directly from accumulated other comprehensive income.

(\*)6 The estimated period on realization of the temporary differences are as follows:

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

	Ending Balance	2009	2010 or after
(Deductible temporary differences)			
Accrued income	₩ (82,047)	₩ (82,047)	₩ -
Gains or losses related to derivatives	(178,692)	(701,487)	522,795
Unearned dividend from SPC	(1,283)	(1,283)	-
Gains or losses on valuation of trading securities	(8,470)	(6,424)	(2,046)
Gains or losses on valuation of held-to-maturity securities	(15,417)	(5,613)	(9,804)
Allowance for other liability	312,623	-	312,623
Liability reserve for guarantees	57,600	-	57,600
Deferred loan organization fees and costs	44,278	-	44,278
Compensation expense for stock option	319	-	319
Long term accrued expenses	19,152	-	19,152
Loss on revaluation of tangible asset	25,346	-	25,346
Others	484,112	39,568	444,544
	657,521	(757,286)	1,414,807
(Accumulated other comprehensive income)			
Gain on disposal of available-for-sale securities	(398,680)	(8,474)	(390,206)
Loss on valuation of held-to-maturity securities	409	-	409
Unrealized gain on investment in affiliates	(4,357)	-	(4,357)
Gain on revaluation of tangible asset	(558,124)	-	(558,124)
	(960,752)	(8,474)	(952,278)
(Capital surplus due to using equity method)			
Other capital surplus	(25,163)	-	(25,163)
	₩ (328,394)	₩ (765,760)	₩ 437,366

( 4 ) There was no temporary difference due to deferred income tax liabilities as of December 31, 2008.

( 5 ) There was no carry-forward deficit as of December 31, 2008.

( 6 ) Accrued income tax and receivables of prior year's income tax before offsetting as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Refund of prior year's income tax before offsetting	₩ 88,538	₩ 207,371
Accrued income tax before offsetting	179,530	356,838
Offset refund of prior year's income tax (overseas)	207	101
Offset accrued income tax	₩ 91,199	₩ 149,568

## 22. Earnings per share

### ( 1 ) Basic net income per share

Basic income per share is calculated for common stock by dividing net income available to common shareholders by the weighted average number of outstanding common stock. The basic net income per share for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions except per share amounts):

Classification	2008	2007
Net income	₩ 782,618	960,945
Weighted average number of common shares	644,906,826	644,906,826
Basic net income per share (In currency units)	₩ 1,214	1,490

Both the weighted average number of outstanding common stock and the number of outstanding common stock are the same because there is no change on the number of outstanding common stock for year ended December 31, 2008 and 2007.

### ( 2 ) Diluted net income per share

Diluted net income per share represent diluted net income divided by the number of common shares and diluted securities. There is no diluted security for recent two years. The diluted net income per share is the same as net income per share.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 23. Segment information

### ( 1 ) Operating segments

#### 1) General information of operating segments

The Bank's operating segments were as follows:

Classification	Operation
Consumer	Consumer banking
Corporate	Corporate banking
Foreign	International financial business
Credit card	Credit card operation
Others	Treasury operation of investment in securities (including derivatives), management and others

2) As of and for the years ended December 31, 2008 and 2007, financial information on the Bank's operating segments was as follows (Unit: In millions):

Classification	2008			2007		
	Operating income before provision	Loans (*1)	Securities (*2)	Operating income before provision	Loans (*1)	Securities (*2)
Consumer	₩ 822,469	₩ 21,938,704	₩ -	₩ 846,539	₩ 20,059,106	₩ -
Corporate	806,964	32,881,037	1,463,152	628,218	26,799,966	1,923,741
Foreign	97,082	5,689,717	546,100	62,223	4,758,937	657,570
Credit card	222,140	2,441,329	2,652	233,680	2,441,329	2,652
Others	15,306	4,339,119	11,545,053	65,337	2,055,068	9,100,726
	₩ 1,963,861	₩ 67,289,906	₩ 13,556,957	₩ 1,835,997	₩ 56,114,406	₩ 11,684,689

(\*1) Allowance for possible loan losses and deferred loan organization fees and costs are not deducted, and loans of merchant banking accounts are included.

(\*2) Trading securities of merchant banking accounts are included.

#### 3) Adjustment of income before liability reserve

Details of adjustment of income before liabilities reserve for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Operating income before provision	₩ 1,963,861	₩ 1,835,997
Reversal of (provision for) allowance and reserve (*)	(749,470)	(262,064)
Accrued severance benefits	(46,901)	(57,344)
Income tax expense	(384,872)	(555,644)
Net income	₩ 782,618	₩ 960,945

(\*) Liability reserves for acceptances and guarantees, unused credit limit and allowance for other liabilities (including merchant banking accounts) are included.

### ( 2 ) Geographical segments

#### 1) General information of geographical segments

The Bank operates domestic bank for local residents and overseas bank for Korean residents abroad and overseas companies.

2) As of and for the years ended December 31, 2008 and 2007, financial information on the Bank's geographical segments was as follows (Unit: In millions):

Classification	2008			2007		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Operating revenue	₩ 22,068,153	₩ 662,337	₩ 22,730,490	₩ 8,399,872	₩ 362,795	₩ 8,762,667
Operation income	1,047,019	106,811	1,153,830	1,328,924	82,722	1,411,646
Loans (*1)	61,600,189	5,689,717	67,289,906	51,355,405	4,759,001	56,114,406
Securities (*2)	13,010,858	546,099	13,556,957	11,321,822	362,867	11,684,689

(\*1) Allowance for possible loan losses and deferred loan organization fees and costs are not deducted, and loans of merchant banking accounts are included.

(\*2) Trading securities of merchant banking accounts are included.



KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 24. Related party transactions

( 1 ) The parent company and subsidiaries of the Bank as of December 31, 2008 were as follows:

Company	Relation
LSF-KEB Holdings, SCA	Parent company
KEBC	Subsidiary
KEBF	Subsidiary
KEBIS	Subsidiary
KEBOC	Subsidiary
KEBA	Subsidiary
KEBDAG	Subsidiary
KEBI	Subsidiary
KEBB	Subsidiary
NYFinCo	Subsidiary
LAFinCo	Subsidiary
USAI	Subsidiary

( 2 ) Significant balances made in the normal course of business with related parties as of December 31, 2008 and 2007 are summarized as follows (Unit: In millions):

<2008>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 3,588	₩ 1,341	₩ 17,138	₩ 16,545	₩ 388	₩ -	₩ -	₩ 39,000
Loans in Won	169,300	-	-	-	-	-	-	-	169,300
Loans in foreign currencies (*)	40,125	-	-	274,546	65,331	25,150	-	650,142	1,055,294
Allowance for possible loan losses	(1,780)	-	-	-	-	-	-	-	(1,780)
Other assets	207	2	-	3,172	694	685	-	4,020	8,780
	₩207,852	₩ 3,590	₩ 1,341	₩294,856	₩ 82,570	₩ 26,223	₩ -	₩654,162	₩1,270,594
Liabilities:									
Deposits in Won	₩ 153	₩ 33	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 186
Deposits in foreign currencies	51	4,494	4,483	4	12,945	330	-	955	23,262
Borrowings in foreign currencies	-	-	12,647	17,663	108,904	98,085	-	11,855	249,154
Other liabilities	3,894	344	-	798	910	999	79,151	176	86,272
	₩ 4,098	₩ 4,871	₩ 17,130	₩ 18,465	₩122,759	₩ 99,414	₩ 79,151	₩ 12,986	₩358,874

(\*) Call loans in foreign currencies were included.

<2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 1,322	₩ 2,777	₩ 2,818	₩ 57,265	₩ 284	₩ -	₩ -	₩ 64,466
Loans in Won	51,300	-	-	-	-	-	-	-	51,300
Loans in foreign currencies (*)	33,472	-	-	249,484	60,489	13,419	-	330,146	687,010
Allowance for possible loan losses	(1,111)	(340)	-	-	-	-	-	-	(1,451)
Other assets	139	1	-	624	830	7	-	3,475	5,076
	₩ 83,800	₩ 983	₩ 2,777	₩252,926	₩118,584	₩ 13,710	₩ -	₩333,621	₩ 806,401
Liabilities:									
Deposits in Won	₩ 145	₩ 35	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 180
Deposits in foreign currencies	-	3,562	-	-	889	455	-	1,245	6,151
Borrowings in foreign currencies	-	-	-	59,867	54,926	9,384	-	13,262	137,439
Other liabilities	3,345	342	-	-	618	64	108,751	377	113,497
	₩ 3,490	₩ 3,939	₩ -	₩ 59,867	₩ 56,433	₩ 9,903	₩ 108,751	₩ 14,884	₩257,267

(\*) Call loans in foreign currencies were included.

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

( 3 ) Significant transactions with related parties for the years ended December 31, 2008 and 2007 were as follows  
(Unit: In millions):

<2008>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 7,805	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,805
Interest revenues in foreign currencies	2,240	4	15	12,384	3,773	512	-	23,287	42,215
Commission income in Won	-	169	-	-	-	-	-	-	169
Commission income in foreign currencies	-	-	-	418	4,172	-	-	-	4,590
Other revenue	12,809	-	35	2,448	-	-	10,992	-	25,284
	₩ 21,854	₩ 173	₩ 50	₩ 15,250	₩ 7,945	₩ 512	₩ 10,992	₩ 23,287	₩ 80,063
Expenses:									
Interest expenses in Won	₩ -	₩ 48	₩ -	₩ -	₩ -	₩ -	₩ 1,512	₩ -	₩ 1,560
Interest expenses in foreign currencies	58	114	105	2,065	7,865	641	-	606	11,454
Commission expense in Won	-	564	-	-	-	-	-	-	564
Commission expense in foreign currencies	-	160	-	-	915	-	-	-	1,075
Written-off of bad debts	1,060	-	-	-	-	-	-	-	1,060
Other expenses	697	-	-	287	-	-	-	-	984
	₩ 1,815	₩ 886	₩ 105	₩ 2,352	₩ 8,780	₩ 641	₩ 1,512	₩ 606	₩ 16,697

<2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 5,954	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 5,954
Interest revenues in foreign currencies	1,912	-	7	8,580	3,682	1,377	-	16,971	32,529
Commission income in Won	-	175	-	-	-	-	2	-	177
Commission income in foreign currencies	-	-	36	-	2,718	-	-	26	2,780
Other revenue	1,023	-	-	-	-	-	10,833	535	12,391
	₩ 8,889	₩ 175	₩ 43	₩ 8,580	₩ 6,400	₩ 1,377	₩ 10,835	₩ 17,532	₩ 53,831
Expenses:									
Interest expenses in Won	₩ 101	₩ 1	₩ -	₩ -	₩ -	₩ -	₩ 2,407	₩ -	₩ 2,509
Interest expenses in foreign currencies	-	116	65	1,495	5,045	979	-	1,244	8,944
Commission expense in Won	-	569	-	-	-	-	-	-	569
Commission expense in foreign currencies	-	100	-	-	101	-	-	-	201
Written-off of bad debts	305	-	-	-	-	(16)	-	-	289
Other expenses	1,262	36	-	-	-	60	-	581	1,939
	₩ 1,668	₩ 822	₩ 65	₩ 1,495	₩ 5,146	₩ 1,023	₩ 2,407	₩ 1,825	₩ 14,451

( 4 ) The key management compensations for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Compensations
Short-term employee benefits	₩ 7,055
Employee benefits after resignation	480
Stock option	(6,212)
	₩ 1,323

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

## 25. Operation performance of trust accounts

( 1 ) The significant financial information relating to trust accounts for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

Classification	2008	2007
Revenue:		
Trust fees and commissions received from trust accounts	₩ 35,299	₩ 32,818
Commission from pre-payment	44	37
	₩ 35,343	₩ 32,855
Expense:		
Interest on borrowings from trust accounts	₩ 50,309	₩ 34,299

( 2 ) As of December 31, 2008, the Bank is not obligated to pay difference between book value and fair value of trust account, and the trust accounts for which the Bank provided the guarantees for a fixed rate of return and/or the repayment of principal consisted of following (Unit: In millions):

Classification	Book value	Fair value
Trust accounts guaranteeing the repayment of principal:		
Installment trust	₩ 275	₩ 262
Household trust	2,273	2,263
Old age pension trust	5,210	5,048
Corporate trust	46	41
Personal pension trust	232,286	231,130
Retirement trust	806,495	810,919
New personal pension trust	44,348	45,256
New old age pension trust	6,963	6,845
Pension trust	130,533	133,027
	1,228,429	1,234,791
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:		
Unspecified monetary trust	71	68
Development money trust	1,659	28
	1,730	96
	₩ 1,230,159	₩ 1,234,887

## 26. Computation of value added

Accounts required for computation of value added for the years ended December 31, 2008 and 2007 consist of the following (Unit: In millions):

Accounts	2008	2007
Salaries	₩ 511,979	₩ 509,754
Retirement allowances	46,901	57,344
Expenses for fringe benefits	148,993	134,363
Rent	72,926	47,923
Depreciation	88,377	96,580
Amortization	31,044	29,782
Taxes and dues	47,124	37,020
	₩ 947,344	₩ 912,766

## 27. Financial information of the fourth quarter (Unaudited)

The Bank is required to report interim financial statement but it doesn't report the financial statement of last quarter. The Bank's summary of financial information for the last quarter ended December 31, 2008 and 2007 was as follows (Unit: In millions except per share amounts):

Classification	4 <sup>th</sup> Q in 2008	4 <sup>th</sup> Q in 2007
Operating revenue	₩ 9,205,972	₩ 2,831,677
Net income	117,903	250,905
Net income per share (In currency units)	183	389

# Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2008 and 2007

## 28. Dividends

( 1 ) The calculation of dividends for the years ended December 31, 2008 and 2007 was as follows (Unit: shares, In millions except per share amounts):

Classification	2008	2007
Dividends per share (rate) (In currency units)	₩ 125 (2.5%)	₩ 700 (14%)
Shares issued	644,906,826	644,906,826
Dividends	80,613	451,435

( 2 ) The calculation of dividend payout ratio for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

Classification	2008	2007
Dividends	₩ 80,613	₩ 451,435
Net income	782,618	960,945
Dividend payout ratio (%)	10.30	46.98

The calculation of dividend yield ratio for the years ended December 31, 2008 and 2007 was as follows (Unit: In currency units):

Classification	2008	2007
Dividends per share	₩ 125	₩ 700
Closing price	6,330	14,500
Dividend yield ratio (%)	1.97	4.83

## 29. Cash flows

( 1 ) Cash in statements of cash flows consists of cash, due from bank (excluding restricted due from bank), receivables and preferred stock with 3 months or less of maturity and securities under agreement to repurchase with 3 months or less of maturity. Cash flows from operating activities are presented by the indirect method.

In addition, the Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities.

( 2 ) The cash and due from banks in the statements of cash flows for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Cash and due from banks	₩ 10,107,706	₩ 5,118,391
Add: securities	-	458,169
	10,107,706	5,576,560
Less: restricted due from bank	(6,807,802)	(1,886,999)
	₩ 3,299,904	₩ 3,689,561

( 3 ) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Decrease of loans from write-offs of loans	₩ 793,961	₩ 373,091
Increase (decrease) of gain on valuation of available-for-sale securities	(779,834)	(29,191)
Change on unsettled spot transactions	881,988	5,439,166
Transferring of accrued expenses in stock option	-	17,780

## Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of  
Korea Exchange Bank:

—

We have reviewed the accompanying report on the management's assessment of IACS (the "Management's Report") of Korea Exchange Bank (the "Bank") as of December 31, 2008. The Management's Report, and the design and operation of IACS are the responsibility of the Bank's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Bank's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2008, the Bank's IACS has been appropriately designed and is operating effectively as of December 31, 2008, in all material respects, in accordance with the IACS framework established by the Korean Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of the Bank's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Bank's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with of the IACS Framework established by the Korean Listed Companies Association.

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



Deloitte Anjin LLC  
Seoul, Korea  
March 12, 2009

## Evaluation Report on the Effectiveness of Internal Accounting Management System by the Internal Accounting Manager

English Translation of a Report Originally Issued in Korean

Dear Board of Directors & Audit Committee of  
Korea Exchange Bank:

—

I, the Internal Accounting Manager, evaluated the design and operation effectiveness of the KEB's Internal Accounting Management System for the fiscal year 2008.

I understand that the management of KEB, including me, the Internal Accounting Manager, share the responsibility for the design and operation of the Internal Accounting Management System. For reliable financial statements and public disclosures, I conducted the evaluation as to whether our bank's Internal Accounting Management System has been effectively designed and operated to prevent and find out frauds or material errors that can cause misstatement of financial statements. The evaluation has been conducted in accordance with the "Guidelines for Internal Accounting Management System."

Based on the above evaluation, I express my opinion that KEB's Internal Accounting Management System is, in material respects, effectively designed and operated as designed as of Dec. 31, 2008.

Feb. 3, 2009

Richard F. Wacker  
President & CEO



Jee Won Kim  
Internal Accounting Manager





For the years ended December 31, 2008 and 2007

## Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

—

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have not audited the financial statements of KEB Australia Ltd., Korea Exchange Bank of Canada, PT. Bank KEB Indonesia, Korea Exchange Bank (Deutschland) A.G., Banco KEB do Brasil S.A., KEB NY Financial Corp., and KEB LA Financial Corp. whose statements reflect total assets constituting 3.16 percent of consolidated total assets as of December 31, 2008 and total revenues constituting 1.03 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for those entities, is based solely on the reports of such other auditors.

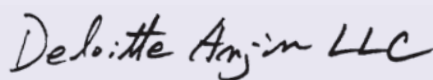
We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on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

In our opinion, based on our audits and the reports of other auditors, financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2008 and 2007, and the results of their operations, the changes in its shareholders' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we drew attention to the following:

As discussed in Note 10 to the consolidated financial statements, the Bank adopted the amendment to the Statement of Korea Accounting Standards ("SKAS") No. 5 "Property, Plant and Equipment", which permits certain items of its land to be revalued after acquisition date, applying the revaluation models permitted under SKAS No. 5. As a result of this adoption, the book value of the land and net assets increased by ₩532,778 million and ₩415,567 million, respectively, as of December 31, 2008.

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



Deloitte Anjin LLC  
Seoul, Korea  
March 12, 2009

### Notice to Readers

—

This report is effective as of March 12, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

## Consolidated Balance Sheets

KOREA EXCHANGE BANK AND SUBSIDIARIES as of December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
<b>ASSETS</b>		
Cash and due from banks (Notes 5, 18, 24, 25 and 28)	₩ 10,764,255	₩ 5,650,475
Securities (Notes 6, 17, 18 and 24)	13,950,068	12,128,017
Loans (Notes 7, 8, 9, 17, 18, 24 and 25)	68,762,502	57,344,247
Tangible assets (Notes 10 and 24)	1,450,580	909,889
Other assets (Notes 4, 11, 17, 22, 24 and 25)	12,391,283	8,903,538
	₩ 107,318,688	₩ 84,936,166
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
LIABILITIES:		
Deposits (Notes 12, 18, 24 and 25)	₩ 62,563,590	₩ 48,671,354
Borrowings (Notes 13, 18, 24 and 25)	23,556,601	18,149,233
Other liabilities (Notes 4, 14, 17, 18, 24 and 25)	14,514,667	11,444,666
	100,634,858	78,265,253
SHAREHOLDERS' EQUITY (Notes 4, 6, 10, 15, 17 and 24):		
Common stock	3,224,534	3,224,534
Other capital surplus	940	940
Capital adjustments	(4,425)	(5,722)
Accumulated other comprehensive income	749,200	1,090,015
Retained earnings	2,711,764	2,359,658
Minority interests	1,817	1,488
	6,683,830	6,670,913
	₩ 107,318,688	₩ 84,936,166

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

121

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

	(In millions of won, except per share amounts)	
	2008	2007
<b>OPERATING REVENUES (Note 24):</b>		
Interest income (Notes 20 and 25):		
Interest on due from banks	₩ 177,780	₩ 87,278
Interest on trading securities	174,742	157,188
Interest on available-for-sale securities	287,617	217,642
Interest on held-to-maturity securities	157,143	88,911
Interest on loans	4,769,031	3,811,763
Other interest income	34,493	34,212
	5,600,806	4,396,994
Gain on valuation and disposal of securities (Note 6):		
Gain on valuation of trading securities	23,893	3,980
Gain on disposal of trading securities	54,704	97,613
Reversal of impairment loss on available-for-sale securities	32,876	92,980
Gain on disposal of available-for-sale securities	93,761	141,394
	205,234	335,967
Gain on valuation and disposal of loans:		
Gain on disposal of loans (Notes 7 and 17)	21,901	18,439
Foreign exchange trading income	2,639,900	938,684
Gain on trading and valuation of derivatives (Notes 17 and 19)	13,994,493	2,615,278
Commission income (Notes 19 and 25)	568,763	579,071
Dividends income (Note 19)	79,064	8,159
Other operating revenue (Notes 19 and 25)	41,631	103,573
Total operating revenues	23,151,792	8,996,165
<b>OPERATING EXPENSES (Note 24):</b>		
Interest expenses (Notes 20 and 25):		
Interest on deposits	2,032,919	1,429,539
Interest on borrowings	1,072,460	798,872
Other interest expenses	54,492	35,850
	3,159,871	2,264,261
Loss on valuation and disposal of securities (Note 6):		
Loss on valuation of trading securities	9,665	12,285
Loss on disposal of trading securities	55,080	69,359
Impairment loss on available-for-sale securities	38,802	22,478
Loss on disposal of available-for-sale securities	1,271	4,962
	104,818	109,084
Loss on valuation and disposal of loans:		
Provision for possible loan losses (Notes 9 and 25)	778,445	304,777
Loss on disposal of loans (Note 7)	26,302	7,246
	804,747	312,023

(Continued)

## Consolidated Statements of Income (continued)

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

	(In millions of won, except per share amounts)	
	2008	2007
Foreign exchange trading losses	₩ 2,538,579	₩ 630,378
Loss on trading and valuation of derivatives (Notes 13, 17 and 19)	13,654,039	2,605,516
Commission expenses (Notes 19 and 25)	247,967	222,434
General and administrative expenses (Notes 19 and 26)	1,256,071	1,197,362
Other operating expenses (Note 19)	191,671	168,865
Total operating expenses	21,957,763	7,509,923
OPERATING INCOME (Note 24)	1,194,029	1,486,242
NON-OPERATING INCOME (Notes 6, 21 and 24)	71,850	86,828
NON-OPERATING EXPENSES (Notes 6, 21 and 24)	86,164	36,459
INCOME BEFORE INCOME TAX (Note 24)	1,179,715	1,536,611
INCOME TAX EXPENSE (Notes 22 and 24)	397,133	575,468
NET INCOME (Notes 23 and 24)		
Controlling company interests, gain	₩ 782,373	₩ 960,945
Minority interests, gain	209	198
	₩ 782,582	₩ 961,143
BASIC NET INCOME PER SHARE (In currency units) (Note 23)	₩ 1,213	₩ 1,490
DILUTED NET INCOME PER SHARE (In currency units) (Note 23)	₩ 1,213	₩ 1,490

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

123

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
(In millions of won)							
January 1, 2007	₩3,224,534	₩ -	₩ 18,862	₩1,122,961	₩2,036,379	₩ 1,310	₩6,404,046
Cumulative effect of accounting changes	-	940	(5,722)	(4,049)	5,322	-	(3,509)
Balance after adjustments	3,224,534	940	13,140	1,118,912	2,041,701	1,310	6,400,537
Dividend	-	-	-	-	(644,907)	-	(644,907)
Balance after appropriations	3,224,534	940	13,140	1,118,912	1,396,794	1,310	5,755,630
Net income	-	-	-	-	960,945	198	961,143
Gain (loss) on foreign exchange trading	-	-	-	-	2,310	(19)	2,291
Changes in accounting estimation (Stock option)	-	-	(18,862)	-	-	-	(18,862)
Valuation of available-for-sale securities	-	-	-	(29,307)	-	(1)	(29,308)
Valuation of held-to-maturity securities	-	-	-	410	-	-	410
Trust reserved	-	-	-	-	(391)	-	(391)
December 31, 2007	₩3,224,534	₩ 940	₩ (5,722)	₩1,090,015	₩2,359,658	₩ 1,488	₩6,670,913
January 1, 2008	₩3,224,534	₩ -	₩ -	₩1,094,064	₩2,355,777	₩ 1,488	₩6,675,863
Cumulative effect of accounting changes	-	940	(5,722)	(4,049)	3,881	-	(4,950)
Balance after adjustments	3,224,534	940	(5,722)	1,090,015	2,359,658	1,488	6,670,913
Dividend	-	-	-	-	(451,435)	-	(451,435)
Balance after appropriations	3,224,534	940	(5,722)	1,090,015	1,908,223	1,488	6,219,478
Net income	-	-	-	-	782,373	209	782,582
Gain on foreign exchange trading	-	-	-	-	21,052	120	21,172
Valuation of available-for-sale securities	-	-	-	(776,196)	-	-	(776,196)
Valuation of held-to-maturity securities	-	-	-	44	-	-	44
Effect on change of income tax rate	-	-	1,297	-	-	-	1,297
Gain on valuation of tangible assets	-	-	-	435,337	-	-	435,337
Trust reserved	-	-	-	-	116	-	116
December 31, 2008	₩3,224,534	₩ 940	₩ (4,425)	₩ 749,200	₩2,711,764	₩ 1,817	₩ 6,683,830

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	₩ 782,582	₩ 961,143
Adjustments to reconcile net income to net cash used in operating activities:		
Loss (gain) on valuation of trading securities, net	(14,228)	8,305
Impairment loss (reversal of impairment loss) on available-for-sale securities, net	5,926	(70,502)
Gain on valuation of securities using the equity method, net	(3,766)	(585)
Provision for possible loan losses	778,445	304,777
Loss on disposal of tangible assets, net	1,699	1,963
Depreciation and amortization	129,373	137,331
Loss on revaluation of tangible assets	25,346	-
Loss (gain) on valuation of financial derivatives, net	(128,554)	4,407
Provision for severance benefits	48,514	58,137
Compensation cost	4,728	23,766
Provision for (reversal of) allowance for other liabilities	44,085	(79,004)
Stock option compensation costs, net	(11,862)	5,417
Loss on foreign exchange trading, net	355,992	20,743
Others, net	(39,268)	6,818
	1,196,430	421,573
Changes in assets and liabilities resulting from operations:		
Net increase in trading securities	(91,498)	(1,090,574)
Net decrease (increase) in available-for-sale securities	(1,823,848)	545,580
Net increase in held-to-maturity securities	(1,417,129)	(266,823)
Net decrease (increase) in call loans	1,546,814	(521,290)
Net increase in domestic import usance bill	(1,004,275)	(372,120)
Net increase credit card receivables	(138,180)	(151,935)
Net increase in bills bought in foreign currencies	(954,859)	(418,027)
Net decrease (increase) in bills bought	(152,389)	601,007
Net decrease (increase) in bonds purchased under repurchase agreements	(2,342,717)	200,000
Net increase in loans in Won	(4,804,150)	(6,563,089)
Net increase in loans in foreign currencies	(4,692,014)	(2,088,755)
Net decrease (increase) in factoring receivables	180,097	(10,626)
Net decrease (increase) in advances for customers	(24,408)	5,632
Net decrease in privately placed bonds	154,991	305,447
Net decrease in deferred loan origination fees and costs	21,387	17,273
Net decrease (increase) in accrued income	(92,252)	41,370
Net increase in prepaid expenses	(10,953)	(75)
Net increase in deferred income tax assets	(18,392)	(2,582)
Net increase in financial derivatives assets	(3,753,863)	(154,031)
Net increase in accrued expenses	274,926	2,260
Net increase in unearned revenues	18,433	26,137
Payment of severance benefits	(18,381)	(16,170)
Decrease in transfer to National Pension Fund	57	33
Increase in deposit of insurance for severance benefits	(44,461)	(12,060)
Increase in assets under management of pension benefits	(324)	-
Net increase in financial derivatives liabilities	3,756,179	33,012
Net decrease in allowance for other liabilities	(15,532)	(17,741)
Net decrease in accrued expenses (exercise of stock option)	-	(6,499)
Net increase in deferred income tax liabilities	115,462	45,220
	(15,331,279)	(9,869,426)
<b>Net cash used in operating activities</b>	<b>(13,352,267)</b>	<b>(8,486,710)</b>

(Continued)



# Consolidated Statements of Cash Flows (continued)

125

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

	(In millions of won)	
	2008	2007
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disposal of securities using the equity method	₩ 1,200	₩ -
Disposal of tangible assets	3,863	7,028
Acquisition of securities using the equity method	(2,980)	(4,000)
Purchase of tangible assets	(106,444)	(134,659)
Net increase in guarantee deposits paid	(35,115)	(127,952)
Purchase of intangible assets	(16,603)	(29,064)
Net decrease (increase) in accounts receivable	713,644	(1,548,684)
Net increase in other assets	(1,055,380)	(5,813,785)
Net increase in due from banks	(4,922,342)	(348,820)
Net cash used in investing activities	(5,420,157)	(7,999,936)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	13,904,362	6,879,826
Net increase in borrowings	3,048,427	1,552,539
Net increase in debentures	2,007,168	2,361,784
Net increase (decrease) in other liabilities	(2,829)	7,669,758
Dividend (Note 27)	(451,435)	(644,907)
Net cash provided by financing activities	18,505,693	17,819,000
<b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>	<b>(266,731)</b>	<b>1,332,354</b>
<b>CASH AND DUE FROM BANKS, BEGINNING OF YEAR</b>	<b>4,216,788</b>	<b>2,884,434</b>
<b>CASH AND DUE FROM BANKS, END OF YEAR (Note 28)</b>	<b>₩ 3,950,057</b>	<b>₩ 4,216,788</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## 1. General

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

The Bank 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 Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea. The Bank operates through 353 branches (including 28 depositary offices) and 3 subsidiaries in Korea and 25 branches (including 5 depositary offices and 5 offices) and 8 subsidiaries in overseas as of December 31, 2008.

The Bank's shareholders as of December 31, 2008 are as follows:

Shareholders	Number of shares owned <sup>(*)1</sup>	Ownership (%)
LSF-KEB Holdings, SCA	329,042,672	51.02
Export-Import Bank of Korea	40,314,387	6.25
Bank of Korea	39,500,000	6.12
Others	236,049,767	36.61
	644,906,826	100.00

(\*)1 As of December 31, 2008 - the date of closing a shareholders' list

The Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during an extraordinary shareholders' meeting on September 16, 2003. The balance below the par value was recognized as a discount on stock issued.

As of December 31, 2008, the total number of authorized shares of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding with par value of ₩5,000).

## 2. Scope of consolidation and equity method accounting

The consolidated financial statements are based on the financial statements of the KEB (including merchant banking accounts), its trust accounts and subsidiaries.

Subsidiaries included in the consolidation and accounted for using the equity method as of December 31, 2008 and 2007 were as follows:

<2008>

Subsidiaries	Closing date	No. of shares (unit: thousand)	Percentage of ownership (%)	Business
Consolidated (Domestic):				
KEB Capital Inc. ("KEBC")	March 31	14,976	99.30	Leasing and Installment Financing
KEB Futures Co., Ltd. ("KEBF")	March 31	3,000	100.00	Brokerage services for futures transactions
Consolidated (Overseas):				
Korea Exchange Bank of Canada ("KEBOC")	December 31	334	100.00	Banking service
KEB Australia Ltd. ("KEBA")	December 31	55,000	100.00	Commercial banking business and foreign exchange operation
Korea Exchange Bank (Deutschland) A.G. ("KEBDAG")	December 31	20	100.00	Banking service
PT. Bank KEB Indonesia ("KEBI")	December 31	1	99.00	Banking service
Banco KEB do Brasil S. A. ("KEBB")	December 31	33,726	100.00	Banking service.
KEB NY Financial Corp. ("KEBNYFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
KEB LA Financial Corp. ("KEBLAFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
Accounted for using the equity method:				
Lippo Incheon Development Co., Ltd.	December 31	388	2.70	Developing Woonbook Leisure Complex
Realty Advisors Korea, Ltd.	June 31	200	14.29	Maintenance Service on Non-residence Real-estate Investments
Ilsan Project Co., Ltd.	December 31	288	4.80	Real-estate brokerage service
Soul Flora Co., Ltd.	December 31	20	5.00	Real-estate rental service
KEB Fund Services Co., Ltd. <sup>(*)1</sup>	December 31	510	100.00	General office service
KEB USA Int'l Corp. <sup>(*)1</sup>	December 31	0.1	100.00	Remitting US dollars of the bank

(\*)1 The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

&lt;2007&gt;

Subsidiaries	Closing date	No. of shares	Percentage of ownership (%)	Business
Consolidated (Domestic):				
KEB Capital Inc. ("KEBC")	March 31	14,976	99.30	Leasing and Installment Financing
KEB Futures Co., Ltd. ("KEBF")	March 31	3,000	100.00	Brokerage services for futures transactions
Consolidated (Oversea):				
Korea Exchange Bank of Canada ("KEBOC")	December 31	334	100.00	Banking service.
KEB Australia Ltd. ("KEBA")	December 31	55,000	100.00	Commercial banking business and foreign exchange operation
Korea Exchange Bank (Deutschland) A.G. ("KEBDAG")	December 31	20	100.00	Banking service
PT. Bank KEB Indonesia ("KEBI")	December 31	1	99.00	Banking service
Banco KEB do Brasil S. A. ("KEBB")	December 31	33,726	100.00	Banking service
KEB NY Financial Corp. ("KEBNYFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
KEB LA Financial Corp. ("KEBLAFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
Accounted for using the equity method:				
Lippo Incheon Development Co., Ltd.	December 31	388	2.70	Developing Woonbook Leisure Complex
Realty Advisors Korea, Ltd.	June 31	200	14.29	Maintenance service on non-residence real-estate Investments
KEB Fund Services Co., Ltd. (*1)	December 31	510	100.00	General office service
KEB USA Int'l Corp. (*1)	December 31	0.1	100.00	Remitting US dollars of the bank

(\*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

## SUBSIDIARIES

### TRUST ACCOUNTS

Certain trust accounts whose principal or fixed rate of return is guaranteed by the Bank are included in the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission in the Republic of Korea. The trust accounts as of December 31, 2008 and 2007 were as follows (Unit: In millions):

	2008		2007	
	Total assets	Operating revenue	Total assets	Operating revenue
Consolidated	₩ 1,234,889	₩ 96,620	₩ 1,126,066	₩ 66,081
Not consolidated	9,897,224	736,170	15,348,911	767,476
	₩ 11,132,113	₩ 832,790	₩ 16,474,977	₩ 833,557

### KEB Capital Co., Ltd. ("KEBC")

KEBC was incorporated on September 11, 1989 to engage in leasing industrial equipment and registered in Korea Securities Dealers Automated Quotation ("KOSDAQ") on January 15, 1995. As KEBC continued to experience negative capital until March 31, 2001, its registration with KOSDAQ was canceled by KOSDAQ Committee on July 11, 2001 and withdrawn from KOSDAQ market on August 24, 2001. As of December 31, 2008, 99.3% of the total shares of KEBC are owned by the Bank.

KEBC implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling option at ₩800 per share on the shares owned by other individual shareholders and the employee stock ownership association as of November 9, 2001, for the purpose of debt restructuring due to the work-out process, based on the resolution at the shareholders' meeting on October 13, 2001. This capital reduction resulted in a gain on capital reduction of ₩34,725 million which was used to recover negative capital.

In addition, on November 9, 2001, KEBC issued 14,805 thousand shares of common stock for cash at par value to the Bank, in accordance with the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting to ₩74,024 million from the Bank.

As of December 31, 2008, the total paid-in-capital amounts to ₩75,400 million.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## KEB Futures Co., Ltd. ("KEBF")

KEBF was incorporated on September 24, 1997 as an integrated futures brokerage of the Bank. In 1998, KEBF was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. The Bank retains 100% equity ownership as of December 31, 2008, and the total paid-in-capital amounts to ₩15,000 million.

## KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney, Australia on July 6, 1986 to provide financial services to Korean companies and residents in Sydney and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2008, and the total paid-in-capital of KEBA amounts to AUD 55,000 thousand.

## Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto, Canada on October 6, 1981 to provide financial services to Korean companies and residents in Toronto and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2008 and the total paid-in-capital of KEBOC amounts to CAD 33,400 thousand.

## PT. Bank KEB Indonesia ("KEBI")

KEBI was established in Jakarta, Indonesia on November 5, 1990 to provide financial services to Korean companies and residents in Jakarta and the surrounding area. KEBI changed the firm name from PT. Korea Exchange Bank Danamon to PT. Bank KEB Indonesia in 2007. The Bank retains 99% equity ownership as of December 31, 2008, and the total paid-in-capital of KEBI amounts to IDR 150,000 million.

## Korea Exchange Bank of Deutschland AG ("KEBDAG")

KEBDAG was established in Frankfurt, Germany on December 29, 1992 to provide financial services to Korean companies and residents in Frankfurt and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2008 and the total paid-in-capital of KEBDAG amounts to EUR 15,339 thousand.

## KEB NY Financial Corp. ("KEBNYFINCO")

KEBNYF was established in New York, USA on April 8, 2004 to provide financial services to Korean companies and residents in New York and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2008, and the total paid-in-capital of KEBNYFINCO amounts to USD 1.

## KEB LA Financial Corp. ("KEBLAFINCO")

KEBLAF was established in Los Angeles, USA on April 8, 2004 to provide financial services to Korean companies and residents in Los Angeles and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2008, and the total-in-capital of KEBLAFINCO amounts to USD 1.

A summary of significant financial data of the Bank's subsidiaries, included in the balance sheets as of December 31, 2008 and 2007, and income statements for the years ended December 31, 2008 and 2007 are as follows (Unit: In millions):

Subsidiaries	2008				
	Total assets	Capital stock	Shareholders' equity	Operating revenue	Net income (loss)
Trust accounts	₩ 1,234,889	₩ -	₩ 18,496	₩ 96,620	₩ -
KEB Capital Inc.	978,202	75,400	106,947	145,881	7,994
KEB Futures Co., Ltd.	161,205	15,000	40,764	38,910	8,236
Korea Exchange Bank of Canada	1,100,226	34,680	105,456	60,046	9,817
KEB Australia Ltd.	401,704	47,850	33,331	34,508	22
Korea Exchange Bank (Deutschland) A.G.	582,905	27,245	72,993	43,582	7,500
PT. Bank KEB Indonesia	427,164	17,220	107,944	33,601	15,366
Banco KEB do Brasil S. A.	79,654	18,196	17,432	20,547	892
KEB NY Financial Corp.	366,813	-	6,076	22,022	3,208
KEB LA Financial Corp.	429,729	-	36,422	28,941	(27,777)

Subsidiaries	2007				
	Total assets	Capital stock	Shareholders' equity	Operating revenue	Net income
Trust accounts	₩ 1,126,066	₩ -	₩ 18,381	₩ 66,081	₩ -
KEB Capital Inc.	810,237	75,400	98,993	58,799	12,676
KEB Futures Co., Ltd.	105,867	15,000	27,800	20,552	4,994
Korea Exchange Bank of Canada	821,187	31,961	88,142	51,794	13,198
KEB Australia Ltd.	385,014	45,257	31,505	22,259	4,611
Korea Exchange Bank (Deutschland) A.G.	425,832	21,187	51,490	26,711	3,307
PT. Bank KEB Indonesia	256,993	14,985	80,562	24,742	11,148
Banco KEB do Brasil S. A.	47,988	17,898	16,269	6,276	1,103
KEB NY Financial Corp.	238,740	-	24,780	17,376	1,008
KEB LA Financial Corp.	196,425	-	25,257	16,649	2,091

### 3. Summary of significant accounting policies

#### Basis of Consolidated Financial Statement Presentation

The Bank and its subsidiaries maintain their official accounting records in Korean Won (only domestic subsidiaries) and prepare statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank and its subsidiaries that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Bank and its subsidiaries' financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying consolidated financial statements.

The significant accounting policies followed by the Bank and its subsidiaries in preparing the accompanying consolidated financial statements are summarized below.

#### Basis of Consolidated Financial Statements Preparation

##### ( 1 ) Offset of Investments and Equity Accounts of Subsidiaries

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiaries. The differences between the amounts of investment and the equity accounts are recorded as goodwill or negative goodwill, which is amortized or reversed using the straight-line method over five years. If additional shares are purchased after acquiring control, the difference between the additional acquisition cost and the portion of net assets acquired is credited or charged to capital surplus. If the acquisition date does not agree with the year-end balance sheet date of the subsidiary, the closest closing date to the acquisition date is regarded as acquisition date.

##### ( 2 ) Inter-company Transactions and Balances

All inter-company transactions are eliminated in the consolidated financial statements.

##### ( 3 ) Disposition of Subsidiaries' Shares

If a subsidiary of the Bank is still subject to the scope of consolidation even after certain portions of shares are disposed to minority interests, gain/loss on disposal of investment securities is recognized as capital surplus. If a subsidiary of the Bank is subject to the equity method due to the disposition of securities, the investment account is recorded at net assets of subsidiaries at the time of disposition, net of unamortized goodwill or negative goodwill in the consolidated financial statements.

##### ( 4 ) Equity Method

For investments in affiliates accounted for using the equity method, the difference between acquisition cost and net assets acquired at the acquisition date is added to or deducted from the carrying amount of investments and is amortized in equal annual amounts for five years from the year incurred. Changes in the Bank's portion of net assets of affiliates accounted for using the equity method are added to or deducted from the carrying amount of investments.

##### ( 5 ) Balance Sheet Date for the Consolidated Financial Statements

Balance sheet date for the consolidated financial statements is the closing date of the Bank, the parent company. The accounts of consolidated subsidiaries whose fiscal years are different from that of the Bank have been adjusted to reflect balances as of the closing date of the Bank.

##### ( 6 ) Special Reserve in Trust Accounts

A special reserve provided for possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and/or repayment of the principal each year is included in retained earnings in the consolidated financial statements.

##### ( 7 ) Minority Interests

Non-controlling, outside ownership interests in a subsidiary's shareholders' equity are presented as minority interests. Gain (loss) attributable to minority interests is disclosed on the face of the income statement.

### 4. Accounting policies of the consolidated entities

The relevant laws and regulations applied to the consolidated entities are as follows:

Entity	Relevant laws and regulations
The Bank	Accounting standards of the banking industry & the General Banking act
Trust accounts	Trust Business Act
KEB Capital Inc.	Regulation on Supervision of Specialized Credit Financial Business Law
KEB Futures Co., Ltd.	Supervisory guidelines on futures trading
Korea Exchange Bank of Canada	Financial accounting standards in Canada
KEB Australia Ltd.	Financial accounting standards in Australia
Korea Exchange Bank (Deutschland) A.G.	Financial accounting standards in Deutschland
PT. Bank KEB Indonesia	Financial accounting standards in Indonesia
Banco KEB do Brasil S. A.	Financial accounting standards in Brazil
KEB NY Financial Corp.	Financial accounting standards in U.S.A.
KEB LA Financial Corp.	Financial accounting standards in U.S.A.

**Interest Income Recognition**

The Bank and its subsidiaries apply the accrual basis in recognizing interest income related to due from banks, loans and securities. Whereas, interest on loans, whose principal or interest is past due at the balance sheet date or defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2008 and 2007, accrued interest income not recognized due to such criteria amounted to ₩122,665 million and ₩81,296 million, respectively.

**Classification of Securities**

At acquisition, the Bank and its subsidiaries classify securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank and its subsidiaries have the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for under the equity method are classified as securities accounted for using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank and its subsidiaries change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank and its subsidiaries sell held-to-maturity securities or exercise early redemption right of securities to issuer in the current year or the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability or when the Bank and its subsidiaries hold them not to earn gains on trading in short period.

**Valuation of Securities****( 1 ) Valuation of Trading Securities**

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specified identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

**( 2 ) Valuation of Available-for-sale Securities**

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specified identification method for debt securities). The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in accumulated other comprehensive income (loss) is reversed.

**( 3 ) Valuation of Held-to-maturity Securities**

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

**( 4 ) Valuation of Securities using the Equity Method**

Equity securities held for investment in companies in which the Bank and its subsidiaries are able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds more than 15 percent of the total issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of investee are reflected in the retained earnings. Changes in the capital surplus, capital adjustments or accumulated other comprehensive income (loss) of investee are reflected as gain or loss on valuation of securities using the equity method in accumulated other comprehensive income (loss).

When the book value of equity securities using the equity method is less than zero due to the cumulative losses of the investees, the Bank and its subsidiaries discontinue applying the equity method and does not provide for additional losses. If the investee subsequently reports net income, the Bank and its subsidiaries resume applying the equity method only after their share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

In addition, any gain or loss from the disposal of equity securities of certain consolidated subsidiaries is accounted for as accumulated other comprehensive income (loss) resulting from applying the equity method in the balance sheets if the subsidiaries are still consolidated even after the Bank disposes of a portion of equity securities.

**( 5 ) Reversal of Impairment Loss on Available-for-sale Securities and Held-to-maturity Securities**

If the reasons for impairment loss on available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to amount of the previously recognized impairment loss as reversal of impairment loss on available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of impairment loss on held-to-maturity securities.

**( 6 ) Reclassification of Securities**

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income (loss) and amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

**Transfer of Securities**

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing control of the securities, the transaction is recorded as secured borrowing transaction.

**Allowance for Possible Losses on Credits**

According to the Korea Financial Accounting Standard Article 57 (Valuation of Receivables), allowance for bad debts shall be provided for estimated uncollectible accounts on a reasonable and objective basis. Presently, the historical loss rate (based on mitigation or roll-rate analysis) is one of the permitted reasonable and objective methods to estimate allowance for financial institutions. However, the Bank and its subsidiaries provide loan loss provision pursuant to the Supervisory Regulation of the Banking Business, which requires providing more than minimum rate of loss provision for each asset classification category.

The Bank and its subsidiaries apply the Forward Looking Criteria ("FLC") for their loan classification for large corporate based on the credit rating to determine allowance for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness are considered in developing the credit rating and the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate, household loans and credit card receivables is classified based on the delinquency period, value of collateral and bankruptcy status only. Using such loan classification, the Bank and its subsidiaries classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss and provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.85 percent (construction, real estate, wholesale & retail, hotel and restaurant industries are 0.9%) or more, 7 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. Households' loans categorized as normal, precautionary, substandard and doubtful are 1 percent or more, 10 percent or more, 20 percent or more and 55 percent or more, respectively. Card receivables as those categories are 1.5 percent or more, 15 percent or more, 20 percent or more and 60 percent or more, respectively.

The Bank and its subsidiaries provide allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and endorsed notes based on the credit classification, minimum rate of loss provision prescribed by the Financial Supervisory Service and the credit conversion factor based on the new standard of Bank for International Settlements Accord.

In addition, the Bank and its subsidiaries provide other allowances for the unused limit of credit card (including unused limit of credit card that have not been used at least once in recent one year) and unused loan commitments for corporate and retail loan customers considering the credit conversion factor based on the new standard of Bank for International Settlements Accord and minimum rate of loss provision prescribed by the Financial Supervisory Service.

**Restructuring of Loans**

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Bank's and subsidiaries' loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received is less than the book value of the loan (book value before allowances), the Bank and its subsidiaries offset first the book value against allowances for loan losses and then recognizes provisions for loan losses. Impairment losses for loans that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated and the book value before allowances for loan losses. If the amount of allowances already established is less than the impairment losses, the Bank and its subsidiaries establish additional allowances for the difference. Otherwise, the Bank and its subsidiaries reverse the allowances for loan losses.



# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## Deferred Loan Origination Fees and Costs

The Bank and its subsidiaries defer loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

## Valuation of Receivables and Payables at Present Value

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

## Tangible Assets and Related Depreciation

Tangible assets are recorded at cost or production cost including incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed by using the declining-balance method (straight-line method for building and leasehold improvements) based on the estimated useful lives of the assets 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

## Intangible Assets and Related Amortization

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less discount if any. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future benefits expected, are capitalized as development costs. Intangible assets are amortized using the straight-line method over 5 years and presented after deducting amortized amount.

## Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank and its subsidiaries acquire collateral by foreclosure on the mortgage for loans. Such assets are not depreciated. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price. As of December 31, 2008, the Bank and its subsidiaries do not have non-business use property.

## Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the collective value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value are adjusted to collective value in the balance sheet and the resulting impairment loss is charged to current operations. If the collective value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the collective value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank and its subsidiaries assess the collective value based on expected selling price or appraisal value.

## Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense on the debentures.

## Securities under Resale or Repurchase Agreements

Securities purchased under resale agreements are recorded as loans, and securities sold under repurchase agreements are recorded as borrowings when the Bank and its subsidiaries purchase or sell securities under such agreements.

## Other Liability Reserve

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries are recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation.

**Accrued Severance Benefits**

The accrued severance benefits that would be payable to assuming all eligible employees and directors were to resign are included in other liabilities. The Bank and its domestic subsidiaries has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefit is presented as a deduction from accrued severance benefits.

The estimated accrued severance benefits, which would be payable assuming all eligible employees and executives were to terminate their employment, amounted to ₩294,797 million and ₩265,369 million as of December 31, 2008 and 2007, respectively. In addition, the actual severance benefits paid for the years ended December 31, 2008 and 2007 are ₩18,381 million and ₩16,170 million, respectively.

**Accounting for Derivative Instruments**

The Bank and its subsidiaries account for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

**Accounting for Share-based Payment**

In accordance with the Statement of Korea Accounting Standards No. 22 - *Share-based Payment*, and the Interpretations on Financial Accounting Standards 39-35 - *Accounting for Stock Options*., in case of equity-settled share-based payment transactions, compensation expense for stock option and stock option (capital adjustment) are recorded at fair value at the grant date through an agreement service period, whereas in case of cash-settled share-based payment transactions, compensation expense for stock option and accrued expenses are recorded at fair value at the grant date through an agreement service period. The other liabilities (accrued expenses) by cash-settled share-based payment transactions are assessed at fair value of the closing day or the final settlement day (assessed at intrinsic value for the portion occurred before December 31, 2008). The changes in the fair value of accrued expenses after the grant date are reflected as compensation expense for stock option. In addition, for share-based payment transactions in which the terms of the arrangement provide a choice for the Bank whether the Bank settles the transaction in cash or by issuing equity instruments, the Bank is required to account for that transaction as a cash-settled share-based payment transaction if the Bank has a present obligation to settle in cash, or as an equity-settled share-based payment transaction if no such obligation exists. In case of a cash-settled share-based payment, compensation cost is recorded as capital adjustment (stock option), and in case of an equity-settled share-based payment, compensation cost is recorded as other liabilities (accrued expenses).

**Accounting for Trust Accounts**

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank account are recorded as due from trust accounts of the bank accounts. The Bank 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 Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as operating expense of the bank accounts and as other income of the trust accounts. There are no compensating contributions of the Bank for the year ended December 31, 2008.

**Merchant Banking Accounts**

As permitted by the Restructuring of Financial Institutions Act, the Bank 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 Bank'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.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 2 ) Cash Management Accounts (“CMA”)

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

## ( 3 ) Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending on the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

## Income Tax Expense

Income tax expense is the amount currently payable for the period, additional income taxes or tax refunds for prior years (except for retroactive adjustments of tax effect directly added or deducted to shareholders' equity) added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period the related temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity.

## Accounting for Foreign Currency Transactions and Translation

The Bank and its domestic subsidiaries maintain its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩1,257.50 and ₩938.20 to US\$ 1.00 at December 31, 2008 and 2007, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

## Application of the Statement of Korea Accounting Standards (SKAS)

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the SKAS for achieving a set of Korean accounting standards that should be internationally acceptable and comparable based on SKAS Act 92. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures) (excluding No. 14) as of or before December 31, 2008, and SKAS No. 11 (Discontinued Operation) and SKAS No. 21 (Preparation and Presentation of Financial Statements) through SKAS No. 25 (Consolidated Financial Statements) have been adopted since January 1, 2007.

The material revisions of SKASs, which the Bank adapted, are as follows:

SKAS	Revision
No. 5 (Property, Plant and Equipment)	Application of the cost method or the revaluation method may be chosen by each tangible asset type. Consistent application of the method chosen is required.
No. 15 (Investments in Associates)	Clarifies that in applying the equity method to subsidiaries, except for those instances where the total investment is equal to or less than zero, the net assets and net income or loss on the non-consolidated financial statements of the subsidiary are identical to the net interest in the subsidiary's net assets and net income or loss on the consolidated financial statements of the parent. Clarifies that Subparagraphs (Ga) to (Sa) of Paragraph 39 are illustrative. In addition, the difference between the consideration for the net interest and the net interest in the net assets of the subsidiary, as described under Subparagraphs (Na) to (Ra) is recognized as additional paid-in-capital in the consolidated financial statements of the parent.

As the result of the revision of SKAS No. 5 (Property, Plant and Equipment), the net assets increased by ₩415,567 million and the net income decreased by ₩19,770 million as of and for the year ended December 31, 2008. In addition, with the revision of SKAS No. 15 (Investments in Associates), the accompanying financial statements of the previous period are restated based on the above revision. As a result, the unappropriated retained earnings and capital surplus as of December 31, 2007 increased by ₩3,881 million and ₩940 million, respectively. Capital adjustments and other comprehensive income as of December 31, 2007 decreased by ₩5,722 million and ₩4,049 million, respectively.

## Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, such reclassifications had no effect on either the previously reported prior period's net income or shareholders' equity of the Bank and its subsidiaries.

## 5. Cash and due from bank

( 1 ) Cash and due from banks as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	2008	2007
Cash	₩ 876,432	₩ 972,061
Foreign currencies on hand	437,446	360,496
Due from banks in Won	5,106,517	2,694,677
Due from banks in foreign currencies	4,343,860	1,623,241
	₩ 10,764,255	₩ 5,650,475

( 2 ) Due from banks in Won as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%) Dec. 31, 2008	2008	2007
Reserve deposit	The Bank of Korea	-	₩ 3,752,160	₩ 1,437,782
Current deposit	Other banks	0.10~0.30	40	-
Due from banks on time deposits	Other banks	5.11~7.55	1,234,418	1,179,153
Other due from banks	Other banks	0.00~5.70	5,338	3,145
Other due from banks	Other financial institutions	0.02~5.57	114,561	74,597
			₩ 5,106,517	₩ 2,694,677

( 3 ) Due from banks in foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%) Dec. 31, 2008	2008	2007
Reserve deposit	The Bank of Korea	-	₩ 2,802,781	₩ 418,825
Due from banks on time deposits	Domestic financial institutions	2.33~6.94	145,490	131,093
Due from banks on time deposits	Overseas financial institutions	0.00~8.00	583,243	459,388
Other due from banks	Domestic financial institutions	0.00~1.16	9,444	-
Other due from banks	Overseas financial institutions	0.00~15.40	487,436	312,976
Due from banks in other bank-foreign currencies	Overseas financial institutions	0.00~1.00	315,466	300,959
			₩ 4,343,860	₩ 1,623,241

( 4 ) Restricted due from banks in Won and foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007	Reason for restriction
Due from banks in Won:			
The Bank of Korea	₩ 3,752,160	₩ 1,437,782	Required under the BOK Act
Woori Bank and others	560	611	Escrow account
Samsung Securities	158	337	Subscription related to derivatives
Kookmin Bank	2,022	-	Pledged asset related to borrowings
National agricultural cooperative federation	-	1	Restricted by double payment of card receivable
	3,754,900	1,438,731	
Due from banks in foreign currencies:			
The Bank of Korea	2,802,781	413,203	Required under the BOK Act
BNP Paribas and others	252,143	33,827	Subscription related to derivatives
The Bank of Indonesia	4,094	5,622	Reserve deposits
The Bank of Brazil and others	280	473	Deposits related Microcredito Act
	3,059,298	453,125	
	₩ 6,814,198	₩ 1,891,856	

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 5 ) Term structure of due from banks in Won and foreign currencies as of December 31, 2008 was as follows (Unit: In millions):

Classification	Due from banks in Won	Due from banks in foreign currencies	Total
Due in less than one year	₩ 5,106,517	₩ 4,337,377	₩ 9,443,894
Due from one to two years	-	-	-
Due from two to three years	-	4,704	4,704
Due from three to five years	-	1,779	1,779
Due more than five years	-	-	-
	₩ 5,106,517	₩ 4,343,860	₩ 9,450,377

## 6. Securities

( 1 ) Securities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Trading securities	₩ 3,215,885	₩ 3,108,987
Available-for-sale securities	7,163,333	6,874,425
Held-to-maturity securities	3,550,246	2,130,989
Securities using the equity method	20,604	13,616
	₩ 13,950,068	₩ 12,128,017

( 2 ) Securities excluding securities using the equity method as of December 31, 2008 and 2007 consisted of (Unit: In millions):

<2008>

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 21,842	₩ -	₩ 14,789
Beneficiary certificates	5,000	5,000	5,000	4,841
Government and public bonds	366,505	371,978	372,516	376,938
Finance bonds	1,242,477	1,236,691	1,238,052	1,254,816
Corporate bonds	121,498	120,506	121,091	120,121
Commercial papers	1,453,500	1,433,921	1,443,156	1,444,380
	3,188,980	3,189,938	3,179,815	3,215,885
Available-for-sale securities:				
Equity securities	-	796,418	-	1,144,056
Equity investments	-	82,821	-	87,821
Beneficiary certificates	199,518	199,518	199,518	199,459
Government and public bonds	665,219	663,920	651,657	674,632
Finance bonds	4,104,556	4,079,528	4,057,242	4,033,880
Corporate bonds	834,938	836,959	823,348	810,284
Asset-backed securities	150,588	238,262	182,921	161,336
Other debt securities	87,644	87,644	66,161	51,865
	6,042,463	6,985,070	5,980,847	7,163,333
Held-to-maturity securities:				
Government and public bonds	911,915	897,780	904,584	904,584
Finance bonds	2,368,100	2,366,272	2,365,660	2,365,660
Foreign government bonds	37,607	35,927	34,771	34,771
Corporate bonds	244,324	245,171	244,281	244,281
Other debt securities	957	950	950	950
	3,562,903	3,546,100	3,550,246	3,550,246
	₩ 12,794,346	₩ 13,721,108	₩ 12,710,908	₩ 13,929,464

(\*) Acquisition costs of trading securities are the book value before valuation.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## &lt;2007&gt;

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 65,426	₩ -	₩ 64,830
Beneficiary certificates	10,000	10,000	10,000	9,730
Government and public bonds	193,754	192,972	193,152	192,253
Finance bonds	687,479	686,171	686,443	681,241
Corporate bonds	101,828	101,514	101,520	101,664
Commercial papers	2,063,900	2,041,798	2,050,966	2,049,989
Other debt securities	-	9,280	-	9,280
	3,056,961	3,107,161	3,042,081	3,108,987
Available-for-sale securities:				
Equity securities	-	858,976	-	2,283,243
Equity investments	-	62,966	-	69,305
Beneficiary certificates	2,000	2,000	2,000	2,078
Government and public bonds	750,398	758,451	734,205	733,476
Finance bonds	2,754,136	2,748,857	2,741,545	2,719,522
Foreign government bonds	125	125	125	125
Corporate bonds	698,724	699,357	693,956	689,086
Asset-backed securities	405,514	401,232	299,844	311,436
Other debt securities	87,636	87,636	60,360	66,154
	4,698,533	5,619,600	4,532,035	6,874,425
Held-to-maturity securities:				
Government and public bonds	803,482	802,775	800,738	800,737
Finance bonds	1,153,877	1,162,000	1,153,424	1,153,856
Foreign government bonds	24,796	23,430	24,402	24,402
Corporate bonds	140,356	141,706	140,675	140,686
Asset-backed securities	10,000	9,989	9,996	9,996
Other debt securities	1,323	1,312	1,312	1,312
	2,133,834	2,141,212	2,130,547	2,130,989
	₩ 9,889,328	₩ 10,867,973	₩ 9,704,663	₩ 12,114,401

(\*) Acquisition costs of trading securities are the book value before valuation.

The difference of trading securities between the fair value and the adjusted cost using the effective interest rate method (acquisition cost for stocks) was recorded as gain on valuation of trading securities amounting to ₩23,893 million and ₩3,980 million, and loss on valuation of trading securities amounting to ₩9,665 million and ₩12,285 million for the years ended December 31, 2008 and 2007, respectively.

The fair values of trading and available-for-sale debt securities were assessed by applying the average of base prices as of December 31, 2008, provided by Korea Bond Pricing & KR Co. (KBP), KIS Pricing Inc. and National Information & Credit Evaluation Inc. (NICE).

The fair value of available-for-sale non-marketable equity securities such as SK Networks Co., Ltd. and 20 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co., Ltd. and 5 others was reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities. In order to assess the fair value of stocks, the financial statements for 5 years are estimated based on past operating result. Also, assuming the same operation is continued during the estimated period, the model is applied using the estimated financial statements from 2007 to 2011. Operating income and expenses are reasonably estimated based on the past result, the future plan and the expected market condition, and for non-operating income and expenses, gain or loss from irregular transactions such as gain or loss on disposition of tangible assets are excluded. For the equity investment of association, net assets are calculated deducting total liabilities from the present value of assets of each equity investment.

## Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 3 ) Discretionary investing contract assets included in beneficiary certificate of trading securities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Short-term financial instruments	₩ 4,275	₩ 2,385
Stocks	573	7,312
Others	-	45
Total assets	4,848	9,742
Total liabilities	7	12
Net assets value	₩ 4,841	₩ 9,730

( 4 ) The book value of non-marketable stocks and equity investments among available-for-sale securities, which were not valued at fair value as of December 31, 2008 and 2007, was as follows (Unit: In millions):

<2008>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	8,850
KAMCO	6,330
PDHD	2,000
M Cieta Development	1,275
BLADEX	1,234
Hallyu-Wood	1,200
Others	1,446
	55,274
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
SHCF Private Equity Fund	5,000
Westend Corporate Restructuring Corporate	5,000
HTIC 6 <sup>th</sup> Corporate Restructuring Corporate	3,000
	49,680
	₩ 104,954

<2007>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	7,200
KAMCO	6,330
KCB	3,000
KRX	3,000
Hallyu-Wood	1,200
M Cieta Development (*)	1,125
BLADEX	921
C & Woobang ENC	733
Others	1,802
	58,250
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
Others	1
	36,681
	₩ 94,931

(\*) The company name was changed from M Ciety Development to M Cieta Development in 2007.



KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 5 ) The impairment loss and the reversal of impairment loss on available-for-sale securities for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008		2007	
	Impairment	Reversal	Impairment	Reversal
Equity securities	₩ 22,929	₩ 1,482	₩ 6,891	₩ 1,364
Equity investments	-	-	-	36,680
Corporate bonds	-	-	-	139
Asset-backed securities	15,873	31,092	15,587	54,797
Beneficiary certificates	-	302	-	-
	₩ 38,802	₩ 32,876	₩ 22,478	₩ 92,980

( 6 ) Loaned securities included in securities as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Securities in foreign currencies	₩ -	₩ 12,701

( 7 ) Securities provided as collateral as of December 31, 2008 were as follows (Unit: In millions):

Provided to	Collateral amount	Book value	Provided for
Korea securities depository & others	₩ 449,615	₩ 446,416	Sale to RP to customer
BOK	680,000	685,645	Settlement of difference
BOK	1,080,000	1,081,632	Borrowings from BOK
BOK	240,000	242,982	RP sold
Futures Corporations, Securities Corporation, Banks	2,240,200	2,236,396	Derivatives settlement
KRX	16,903	16,903	Derivatives settlement
Brazilian money brokerage service	1,914	1,914	Collateral
Deutsche Bundes Bank	888	874	Borrowings from Deutsche Bundes Bank
	₩ 4,709,520	₩ 4,712,762	

In addition, securities that are possible to be discounted by BOK amounted to ₩3,096,617 million as of December 31, 2008.

( 8 ) Securities using the equity method

1) Securities using the equity method as of December 31, 2008 and 2007 were summarized as follows (Unit: shares in thousand, in millions):

<2008>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
KEB Fund Services Co., Ltd. (KEBFS) (*1)	510	100.0	₩ 2,550	₩ 5,943	₩ 2,550
Realty Advisors Korea, Ltd. (*2)	388	2.7	1,939	1,863	1,863
Lippo Incheon Development Co., Ltd. (*2)	200	14.3	1,000	2,955	2,955
Ilsan Project Co., Ltd. (*2)	288	4.80	2,880	2,775	2,775
Soul Flora Co., Ltd. (*2)	20	5.00	100	88	88
KEB USA International Corp. (USAI)	0.1	100.0	3,144	6,399	6,399
HTIC2 Corporate Restructuring Association	0.04	20.0	4,000	3,974	3,974
			₩ 15,613	₩ 23,997	₩ 20,604

(\*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(\*2) The Bank has important influence over the company through designation of a director and others, although the ownership is less than 15%.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## <2007>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
KEB Fund Services Co., Ltd. (KEBFS) (*1)	510	100.0	₩ 2,550	₩ 5,101	₩ 2,550
Lippo Incheon Development Co., Ltd.	388	2.7	1,939	1,830	1,830
Realty Advisors Korea, Ltd. (*1 & 2)	200	14.3	1,000	575	1,000
KEB USA International Corp. (USAI)	0.1	100.0	2,346	4,236	4,236
HTIC2 Corporate Restructuring Association (*3)	0.04	20.0	4,000	4,000	4,000
			₩ 11,835	₩ 15,742	₩ 13,616

(\*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(\*2) Reclassified from available-for-sale securities to securities using equity method in this period.

(\*3) It hasn't started its business.

2) The valuation of securities using the equity method for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

## <2008>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Book value after valuation
KEBFS (*1)	₩ 2,550	₩ 2,550	₩ -	₩ -	₩ -	₩ 2,550
Realty Advisors Korea, Ltd. (*2)	1,939	1,830	-	-	33	1,863
Lippo Incheon Development Co., Ltd. (*2)	1,000	1,000	(1,200)	-	3,155	2,955
Ilsan Project Co., Ltd. (*2)	2,880	-	2,880	-	(105)	2,775
Soul Flora Co., Ltd. (*2)	100	-	100	-	(12)	88
KEB USA International Corp. (USAI)	3,144	4,236	-	1,442	721	6,399
HTIC2 Corporate restructuring association	4,000	4,000	-	-	(26)	3,974
	₩ 15,613	₩ 13,616	₩ 1,780	₩ 1,442	₩ 3,766	₩ 20,604

(\*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(\*2) The Bank has important influence over the company through designation of a director and others, although the ownership is less than 15%.

## <2007>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Book value after valuation
KEBFS (*1)	₩ 2,550	₩ 2,550	₩ -	₩ -	₩ -	₩ 2,550
Realty Advisors Korea, Ltd. (*1)	1,000	1,000	-	-	-	1,000
Lippo Incheon Development Co., Ltd. (*2)	1,939	-	1,939	-	(109)	1,830
KEB USA International Corp. (USAI)	2,346	3,510	-	32	694	4,236
HTIC2 Corporate restructuring association (*3)	4,000	-	4,000	-	-	4,000
	₩ 11,835	₩ 7,060	₩ 5,939	₩ 32	₩ 585	₩ 13,616

(\*1) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(\*2) Reclassified from available-for-sale securities to securities using equity method in this period.

(\*3) It hasn't started its business.

**3) Summary of Financial Information of Affiliates**

The summary of financial information in affiliates using the equity method as of and for the period ended December 31, 2008 was as follows (Unit: In millions):

Classification	Lippo Incheon Development Co., Ltd.	Ilsan Project Co., Ltd.	Realty Advisors Korea, Ltd.	HTIC2 Corporate Restructuring Association	KEB Fund Services Co., Ltd.	Others	Total
Total assets	₩ 500,336	₩ 60,281	₩ 21,275	₩ 20,080	₩ 7,917	₩ 8,336	₩ 618,225
Total liabilities	431,332	2,460	587	210	1,974	182	436,745
Operation revenue	-	-	36,226	86	8,852	3,403	48,567
Net income (loss)	1,232	(2,179)	22,088	(131)	1,490	477	22,977

Unaudited financial statements as of December 31, 2008 were used for the application of the equity method. The significant events from the closing dates of the investees to that of the Bank and its subsidiaries were properly reflected in applying the equity method. There was no material exception as a result of analytical review, such as analysis of major accounts to assess reliability of those financial statements.

( 9 ) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By industry type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Government and government-invested public companies	₩ 1,101,259	34.25	₩ 933,689	30.02
Financial institutions	1,694,576	52.69	1,900,392	61.13
Manufacturing	31,644	0.98	87,888	2.83
Others	388,406	12.08	187,018	6.02
	3,215,885	100.00	3,108,987	100.00
Available-for-sale securities:				
Government and government-invested public companies	2,221,412	31.01	1,478,732	21.51
Financial institutions	2,933,240	40.95	2,692,883	39.18
Manufacturing	845,475	11.80	1,394,371	20.28
Others	1,163,206	16.24	1,308,439	19.03
	7,163,333	100.00	6,874,425	100.00
Held-to-maturity securities:				
Government and government-invested public companies	2,295,429	64.65	1,157,820	54.33
Financial institutions	1,154,819	32.53	915,254	42.95
Manufacturing	64,178	1.81	20,375	0.96
Others	35,820	1.01	37,540	1.76
	3,550,246	100.00	2,130,989	100.00
	₩ 13,929,464		₩ 12,114,401	

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 10 ) The portfolio of securities excluding securities using the equity method, by security type, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By security type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Stocks	₩ 14,789	0.46	₩ 64,830	2.09
Fixed rate bonds	3,148,422	97.90	2,997,194	96.40
Floating rate bonds	47,833	1.49	37,233	1.20
Beneficiary certificates	4,841	0.15	9,730	0.31
	3,215,885	100.00	3,108,987	100.00
Available-for-sale securities:				
Stocks	1,144,056	15.97	2,282,779	33.21
Fixed rate bonds	3,266,888	45.61	2,392,612	34.80
Floating rate bonds	1,576,525	22.01	1,299,720	18.91
Subordinated bonds	836,717	11.68	761,313	11.07
Beneficiary certificates	199,459	2.78	2,078	0.03
Others	139,688	1.95	135,923	1.98
	7,163,333	100.00	6,874,425	100.00
Held-to-maturity securities:				
Fixed rate bonds	2,950,082	83.10	1,513,606	71.03
Floating rate bonds	69,861	1.97	58,591	2.75
Subordinated bonds	529,353	14.91	558,073	26.19
Others	950	0.02	719	0.03
	3,550,246	100.00	2,130,989	100.00
	₩ 13,929,464		₩ 12,114,401	

( 11 ) The portfolio of securities excluding securities using the equity method, by country, as of December 31, 2008 and 2007 was as follows (Unit: In millions):

By country type	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Korea	₩ 3,215,885	100.00	₩ 3,108,987	100.00
Available-for-sale securities:				
Korea	7,091,847	99.00	6,751,134	98.20
Cayman Islands	45,019	0.63	38,613	0.56
USA	6,532	0.09	63,061	0.92
Hong Kong (China)	4,244	0.06	5,852	0.09
UK	2,560	0.04	2,803	0.04
Others	13,131	0.18	12,962	0.19
	7,163,333	100.00	6,874,425	100.00
Held-to-maturity securities:				
Korea	3,445,715	97.06	2,105,327	98.80
Indonesia	68,474	1.93	-	-
Singapore	20,044	0.56	11,583	0.54
Philippines	5,683	0.16	5,081	0.24
Brazil	9,407	0.26	8,271	0.39
Others	923	0.03	727	0.03
	3,550,246	100.00	2,130,989	100.00
	₩ 13,929,464		₩ 12,114,401	

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 12 ) Term structure of securities except for stocks and equity investments in available-for-sale and held-to-maturity securities as of December 31, 2008 was as follows (Unit: In millions):

Classification	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
Government and public bonds	₩ 860,173	₩ 1,065,996	₩ 29,985	₩ -	₩ 1,956,154
Finance bonds	2,942,572	3,725,375	968,871	17,538	7,654,356
Foreign government bonds	29,088	-	5,683	-	34,771
Corporate bonds	235,206	930,314	9,166	-	1,174,686
Beneficiary certificates	4,841	199,459	-	-	204,300
Asset-backed securities	50,291	84,388	26,657	-	161,336
Others	1,445,330	8	51,857	-	1,497,195
	₩ 5,567,501	₩ 6,005,540	₩ 1,092,219	₩ 17,538	₩ 12,682,798

( 13 ) Structured securities relating to stock and interest rate and credit risk as of December 31, 2008 and 2007 were as follows (Unit: In millions):

&lt;2008&gt;

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities)	₩ 1,500	₩ -	₩ 1,500
Convertible bonds (loans)	45,070	-	45,070
Bonds with stock warrants (available-for-sale securities)	6,700	-	6,700
Bonds with stock warrants (loans)	101,500	-	101,500
Equity Linked Warrants	8	-	8
	154,778	-	154,778
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	20,079	-	20,079
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	-	-	-
Range (accrual) bond (available-for sale securities)	19,822	-	19,822
	39,901	-	39,901
Structured notes relating to credit risk:			
Synthetic CDO	-	18,362	18,362
	₩ 194,679	₩ 18,362	₩ 213,041

&lt;2007&gt;

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities)	₩ 3,000	₩ -	₩ 3,000
Convertible bonds (loans)	24,820	-	24,820
Bonds with stock warrants (available-for-sale securities)	3,750	-	3,750
Bonds with stock warrants (loans)	-	-	-
Equity Linked Warrants	8	-	8
	31,578	-	31,578
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	239,252	-	239,252
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	40,144	-	40,144
Range (accrual) bond (available-for sale securities)	-	-	-
	279,396	-	279,396
Structured notes relating to credit risk:			
Synthetic CDO	-	18,398	18,398
	₩ 310,974	₩ 18,398	₩ 329,372

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 14 ) Changes in accumulated other comprehensive income (loss) of available-for-sale securities for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Equity securities	₩ 1,117,832	₩ (1,049,409)	₩ (9,466)	₩ 317,755	₩ 376,712
Debt securities	(27,454)	(49,093)	7,033	6,984	(62,530)
	₩ 1,090,378	₩ (1,098,502)	₩ (2,433)	₩ 324,739	₩ 314,182

( 15 ) Changes in accumulated other comprehensive loss of held-to-maturity securities for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Debt securities	₩ (363)	₩ (2)	₩ 94	₩ (48)	₩ (319)

( 16 ) Acquisition of stocks of Visa Inc.

The Bank acquired shares of Visa Inc. through the IPO scheme on March 12, 2008, and recognized other non-operating income amounting to ₩18,508 million. The Bank sold 3,219 thousand shares by purchasing treasury stock of Visa Group and recognized gain on disposal of available-of-sale securities amounting to ₩74,396 million.

## 7. Loans

( 1 ) Loans as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Call loans	₩ 841,077	₩ 2,387,891
Domestic import usance bill	2,746,929	1,742,654
Credit card receivables	2,552,607	2,440,553
Bills bought in foreign currencies	4,479,977	3,525,118
Bills bought in Won	2,263,270	2,110,881
Bonds purchased under repurchase agreements	2,342,717	-
Loans in Won	42,325,196	37,824,623
Loans in foreign currencies	11,495,741	6,887,316
Factoring receivables	130,689	310,786
Advances for customers	31,127	6,719
Privately placed bonds	738,203	893,194
	69,947,533	58,129,735
Less: Allowance for possible loan losses (see Note 19)	(1,131,852)	(753,696)
Deferred loan origination fees and costs	(53,179)	(31,792)
	₩ 68,762,502	₩ 57,344,247

( 2 ) Loans in Won and loans in foreign currencies as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification		2008	2007
Loans in Won:			
Commercial	Financial loans:		
	Working capital loans	₩ 22,390,838	₩ 19,996,690
	Facilities loans	3,343,602	2,222,066
	Loans with government funds:		
	Working capital loans	72,339	80,170
	Facilities loans	506,575	481,256
		26,313,354	22,780,182
Households	General purpose loans	13,574,160	12,770,776
	Housing loans	2,288,830	2,098,893
		15,862,990	14,869,669
Public sector and others	Working capital loans	95,978	61,708
	Facilities loans	44,404	23,508
	General purpose loans	8,470	89,556
		148,852	174,772
Total loans in Won		42,325,196	37,824,623
Loans in foreign currencies :			
	Working capital loans	1,930,606	1,393,068
	Facilities loans	4,157,987	1,738,515
	Others	5,380,589	3,755,733
	Inter-bank loans	26,559	-
Total loans in foreign currencies		11,495,741	6,887,316
		₩ 53,820,937	₩ 44,711,939

( 3 ) Loans in Won, loans in foreign currencies and domestic import usance bill, classified by borrower type, as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Large corporations	₩ 5,283,208	₩ 6,859,179	₩ 1,924,276	₩ 14,066,663	24.87
Small and medium corporations (*)	21,030,146	3,900,862	822,653	25,753,661	45.53
Households	15,862,990	524,362	-	16,387,352	28.97
Others	148,852	211,338	-	360,190	0.63
	₩ 42,325,196	₩ 11,495,741	₩ 2,746,929	₩ 56,567,866	100.00

(\*) Small and medium corporations are prescribed in Article 2 of the Small and Medium-sized Enterprise Basic Act.

<2007>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Large corporations	₩ 3,632,117	₩ 4,600,894	₩ 1,122,379	₩ 9,355,390	20.14
Small and medium corporations (*)	19,148,065	1,835,231	620,275	21,603,571	46.50
Households	14,869,669	403,210	-	15,272,879	32.88
Others	174,772	47,981	-	222,753	0.48
	₩ 37,824,623	₩ 6,887,316	₩ 1,742,654	₩ 46,454,593	100.00

(\*) Small and medium corporations are prescribed in Article 2 of the Small and Medium-sized Enterprise Basic Act.



# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 4 ) Loans in foreign currencies and domestic import usance bill, classified by borrower's country, as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

<2008>

Classification	Loans in foreign currencies		Domestic import usance bill		Total	Percentage (%)
	Loans in U.S. Dollars (*)	Translation into Won	Loans in U.S. Dollars (*)	Translation into Won		
Korea	\$ 5,416,437	₩ 6,811,169	\$ 2,184,437	₩ 2,746,929	₩ 9,558,098	67.12
Canada	1,360,041	1,710,252	-	-	1,710,252	12.01
USA	910,855	1,145,401	-	-	1,145,401	8.04
Japan	450,074	565,968	-	-	565,968	3.97
Singapore	161,365	202,917	-	-	202,917	1.42
Others	842,970	1,060,034	-	-	1,060,034	7.44
	<u>\$ 9,141,742</u>	<u>₩ 11,495,741</u>	<u>\$ 2,184,437</u>	<u>₩ 2,746,929</u>	<u>₩ 14,242,670</u>	<u>100.00</u>

(\*) Foreign currencies other than U.S. Dollars are converted into U.S. Dollars at the rate at the balance sheet date.

<2007>

Classification	Loans in foreign currencies		Domestic import usance bill		Total	Percentage (%)
	Loans in U.S. Dollars (*)	Translation into Won	Loans in U.S. Dollars (*)	Translation into Won		
Korea	\$ 3,728,672	₩ 3,498,240	\$ 1,857,444	₩ 1,742,654	₩ 5,240,894	60.73
Canada	688,009	645,490	-	-	645,490	7.48
USA	446,314	418,732	-	-	418,732	4.85
Japan	367,831	345,099	-	-	345,099	4.00
China	127,545	119,663	-	-	119,663	1.39
Others	1,982,619	1,860,092	-	-	1,860,092	21.55
	<u>\$ 7,340,990</u>	<u>₩ 6,887,316</u>	<u>\$ 1,857,444</u>	<u>₩ 1,742,654</u>	<u>₩ 8,629,970</u>	<u>100.00</u>

(\*) Foreign currencies other than U.S. Dollars are converted into U.S. Dollars at the rate at the balance sheet date.

( 5 ) Loans on Won, loans in foreign currencies and domestic import usance bill, classified by industry, as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Corporations:	₩ 26,313,354	₩ 5,802,160	₩ 2,746,929	₩ 34,862,443	67.55
Manufacturing	10,146,952	2,724,646	2,325,019	15,196,617	29.45
Service	3,446,780	1,432,851	381,239	5,260,870	10.19
Real estate and renting and leasing	3,892,542	153,048	62	4,045,652	7.84
Construction	2,980,393	41,384	10,614	3,032,391	5.88
Transportation business	1,312,335	759,017	4,355	2,075,707	4.02
Others	4,534,352	691,214	25,640	5,251,206	10.17
Households	15,862,990	524,362	-	16,387,352	31.75
Public sector and others	148,852	211,338	-	360,190	0.70
	<u>42,325,196</u>	<u>6,537,860</u>	<u>2,746,929</u>	<u>51,609,985</u>	<u>100.00</u>
Loans of overseas branches	-	4,957,881	-	4,957,881	
	<u>₩ 42,325,196</u>	<u>₩ 11,495,741</u>	<u>₩ 2,746,929</u>	<u>₩ 56,567,866</u>	

# Notes to Consolidated Financial Statements

147

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

<2007>

By borrower type	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total	Percentage (%)
Corporations:	₩ 22,780,182	₩ 3,102,542	₩ 1,742,654	₩ 27,625,378	64.03
Manufacturing	8,400,049	1,556,510	1,462,867	11,419,426	26.48
Finance and insurance	632,657	24,613	-	657,270	1.52
Telecommunications	36,081	300	7	36,388	0.08
Service	5,210,933	958,076	215,311	6,384,320	14.80
Construction	3,308,248	51,805	45,838	3,405,891	7.89
Others	5,192,214	511,238	18,631	5,722,083	13.26
Households	14,869,669	430,126	-	15,299,795	35.46
Public sector and others	174,772	43,488	-	218,260	0.51
	37,824,623	3,576,156	1,742,654	43,143,433	100.00
Loans of overseas branches	-	3,311,160	-	3,311,160	
	₩ 37,824,623	₩ 6,887,316	₩ 1,742,654	₩ 46,454,593	

( 6 ) Loans to financial institutions as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 54,792	₩ -	₩ 201,913	₩ 256,705	14.14
Other financial institutions	844,676	47,860	-	892,536	49.18
Overseas financial institutions	-	26,559	639,164	665,723	36.68
	₩ 899,468	₩ 74,419	₩ 841,077	₩ 1,814,964	100.00

(\*) Domestic import usance bill is included in loans in foreign currencies.

<2007>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ -	₩ 1,090,624	₩ 1,102,624	35.64
Other financial institutions	612,551	81,882	-	694,433	22.44
Overseas financial institutions	-	-	1,297,267	1,297,267	41.92
	₩ 624,551	₩ 81,882	₩ 2,387,891	₩ 3,094,324	100.00

(\*) Domestic import usance bill is included in loans in foreign currencies.

( 7 ) The term structure of loans as of December 31, 2008 was as follows (Unit: In millions):

Classification	Loans in Won	Loans in foreign currencies	Domestic import usance bill	Total
Due in less than one year	₩ 30,831,745	₩ 6,823,300	₩ 2,746,701	₩ 40,401,746
Due from one to two years	3,201,232	858,320	201	4,059,753
Due from two to three years	2,137,018	1,277,794	-	3,414,812
Due from three to five years	2,016,707	1,437,127	-	3,453,834
Due after five years	4,138,494	1,099,200	27	5,237,721
	₩ 42,325,196	₩ 11,495,741	₩ 2,746,929	₩ 56,567,866

( 8 ) The changes in deferred loan origination fees and costs for the year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Addition	Decrease	Ending balance
Deferred loan origination fees and costs	₩ 31,792	₩ 54,101	₩ (32,714)	₩ 53,179

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 9 ) The disposed loans for the year ended December 31, 2008 were as follows (Unit: In millions):

Purchaser	Nominal amount	Allowance of possible loan losses at disposal	Gain (Loss) on disposal of loans
Hyundai Asset Resolution Co., Ltd. (*)	₩ 5,484	₩ -	₩ 1,385
KEB 16 <sup>th</sup> Securitization Specialty Co., Ltd.	105,206	14,370	3,219
KCR Partners Co., Ltd. (*)	55,236	-	2,987
Tongyang Financial Co., Ltd. (*)	100,668	-	1,979
Jinheung Savings Bank	110,273	7,329	(25,855)

(\*) Gain on disposal of bad debts.

## 8. Restructured loans

( 1 ) The loans that were restructured because of workouts plan and others for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Restructuring loans	Present value (*)	Ending balance of present value discounts
Workout plan	₩ 357,258	₩ 357,258	₩ -
Corporate reorganization	108,867	105,629	3,238
Rationalization of industry	109,696	74,893	34,803
	₩ 575,821	₩ 537,780	₩ 38,041

(\*) As the present value is calculated with fair value at the restructuring date, if there is no fair value, the present value of total future cash receipts under the restructuring plans is discounted using interest rates of 6.43 percent to 13.46 percent. Also, the present value discount is calculated using effective interest rate method.

( 2 ) Changes in the present value discounts relating to the outstanding restructured loans for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Amount (*)	Present value discounts			
		Beginning balance	Addition	Deduction	Ending balance (*)
Loans:					
Court receivership	₩ 4,138	₩ 592	₩ -	₩ (75)	₩ 517
Others	97,012	41,760	161	(8,824)	33,097
	101,150	42,352	161	(8,899)	33,614
Accounts receivable:					
Court receivership	-	2,134	-	(2,134)	-
Others	18,733	5,136	503	(1,212)	4,427
	18,733	7,270	503	(3,346)	4,427
	₩ 119,883	₩ 49,622	₩ 664	₩ (12,245)	₩ 38,041

(\*)1 These only include restructured loans discounted at present value.

(\*)2 The present value discount is presented as allowance of possible loan losses.

## 9. Allowance for possible loan losses

( 1 ) The allowance for possible loan losses as of December 31, 2008 and 2007 was summarized as follows (Unit: In millions):

<2008>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Call loans	₩ 841,077	₩ -	₩ -	₩ -	₩ -	₩ 841,077
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Credit card loans	2,477,045	40,633	210	25,984	8,735	2,552,607
Allowance	37,156	8,157	42	15,930	8,735	70,020
Allowance percentage	1.50%	20.07%	20.00%	61.31%	100.00%	2.74%
Bills bought in foreign currencies	4,535,209	578	10,676	-	-	4,546,463
Allowance	38,555	40	5,231	-	-	43,826
Allowance percentage	0.85%	7.00%	49.00%	-	-	0.96%
Bonds bought under resale agreements	2,342,717	-	-	-	-	2,342,717
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Loans in Won	43,303,426	565,627	385,029	48,521	186,360	44,488,963
Allowance	398,941	46,445	78,262	27,619	186,360	737,627
Allowance percentage	0.92%	8.21%	20.33%	56.92%	100.00%	1.66%
Loans in foreign currencies	13,992,855	148,492	37,848	15,061	21,855	14,216,111
Allowance	119,879	11,976	11,746	11,919	21,855	177,375
Allowance percentage	0.86%	8.07%	31.03%	79.13%	100.00%	1.25%
Inter-bank loans	26,559	-	-	-	-	26,559
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Factoring receivables	130,689	-	-	-	-	130,689
Allowance	1,111	-	-	-	-	1,111
Allowance percentage	0.85%	-	-	-	-	0.85%
Advances for customers	3,016	8,180	3,165	46	16,182	30,589
Allowance	26	898	633	23	16,182	17,762
Allowance percentage	0.85%	10.98%	20.00%	50.00%	100.00%	58.07%
Privately placed bonds	733,293	2,200	2,360	-	291	738,144
Allowance	5,353	154	472	-	291	6,270
Allowance percentage	0.73%	7.00%	20.00%	-	100.00%	0.85%
Other accounts	12,291	6,548	4,259	6,020	35,411	64,529
Allowance	78	430	852	3,049	35,411	39,820
Allowance percentage	0.64%	6.57%	20.00%	50.65%	100.00%	61.71%
Sum:						
Loans and other accounts	68,398,177	772,258	443,547	95,632	268,834	69,978,448
Allowance	601,099	68,100	97,238	58,540	268,834	1,093,811
Allowance percentage	0.88%	8.82%	21.92%	61.21%	100.00%	1.56%
Present value discounts	34,802	1,194	2,045	-	-	38,041
Allowance for possible loan losses on balance sheet						₩ 1,131,852

(\*1) Local L/C bills bought in Won amounting to ₩17,731 million and Local L/C bills bought in foreign currencies amounting to ₩48,755 million among bills bought in Won are included in bills bought in foreign currencies.

(\*2) Commercial bills purchased amounting to ₩2,196,784 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩33,017 million is deducted.

(\*3) Domestic import usance bill is included in foreign currencies. Interbank loans in foreign currencies of ₩26,559 million is deducted.

(\*4) Present value discount amounting to ₩538 million is deducted on advances for customers.

(\*5) Present value discount amounting to ₩59 million is deducted on privately placed bonds.

(\*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩5,099 million, suspense payments in relation with loans amounting to ₩58,480 million and securities (commercial paper) amounting to ₩950 million.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

<2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Call loans	₩ 2,387,891	₩ -	₩ -	₩ -	₩ -	₩ 2,387,891
Allowance	-	-	-	-	-	-
Allowance percentage	-	-	-	-	-	-
Credit card loans	2,376,605	34,034	-	24,067	5,847	2,440,553
Allowance	35,649	7,943	-	15,062	5,847	64,501
Allowance percentage	1.50%	23.34%	-	62.58%	100.00%	2.64%
Bills bought in foreign currencies (*1)	3,624,868	32	7,965	1,501	-	3,634,366
Allowance	30,524	2	3,903	751	-	35,180
Allowance percentage	0.84%	6.25%	49.00%	50.03%	-	0.97%
Loans in Won (*2)	39,264,157	250,931	195,997	10,238	65,151	39,786,474
Allowance	362,865	19,279	40,620	5,452	65,151	493,367
Allowance percentage	0.92%	7.68%	20.72%	53.25%	100.00%	1.24%
Loans in foreign currencies (*3)	8,520,466	60,367	38,785	6,559	2,047	8,628,224
Allowance	74,954	6,323	8,305	4,881	1,963	96,426
Allowance percentage	0.88%	10.47%	21.41%	74.42%	95.90%	1.12%
Factoring receivables	310,786	-	-	-	-	310,786
Allowance	2,641	-	-	-	-	2,641
Allowance percentage	0.85%	-	-	-	-	0.85%
Advances for customers (*4)	366	2,622	1,190	10	1,805	5,993
Allowance	3	487	238	5	1,805	2,538
Allowance percentage	0.82%	18.57%	20.00%	50.00%	100.00%	42.35%
Privately placed bonds (*5)	892,677	245	173	-	-	893,095
Allowance	6,784	17	35	-	-	6,836
Allowance percentage	0.76%	6.94%	20.23%	-	-	0.77%
Other accounts (*6)	1,331	86	1,636	1,138	1,671	5,862
Allowance	11	7	327	569	1,671	2,585
Allowance percentage	0.83%	8.14%	19.99%	50.00%	100.00%	44.10%
Sum:						
Loans and other accounts	57,379,147	348,317	245,746	43,513	76,521	58,093,244
Allowance	513,431	34,058	53,428	26,720	76,437	704,074
Allowance percentage	0.89%	9.78%	21.74%	61.41%	99.89%	1.21%
Present value discounts	41,463	3,745	4,396	-	18	49,622
Allowance for possible loan losses on balance sheet						₩ 753,696

(\*1) Local L/C bills bought in Won amounting to ₩17,352 million and Local L/C bills bought in foreign currencies amounting to ₩91,896 million among bills bought in Won are included in bills bought in foreign currencies.

(\*2) Commercial bills purchased amounting to ₩2,001,633 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩39,782 million is deducted.

(\*3) Domestic import usance bill is included in foreign currencies. Present value discount amounting to ₩1,746 million is deducted.

(\*4) Present value discount amounting to ₩726 million is deducted on advances for customers.

(\*5) Present value discount amounting to ₩99 million is deducted on privately placed bonds.

(\*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩959 million, suspense payments in relation with loans amounting to ₩3,591 million and securities (commercial paper) amounting to ₩1,312 million.

( 2 ) The changes in allowance for possible loan losses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Beginning balance	₩ 753,696	₩ 648,642
Provision for possible loan losses	778,445	304,777
Loans written-off	(597,106)	(355,998)
Repurchase of loan and others	183,783	155,029
Translation adjustments of overseas	21,081	1,840
Changes in present value discounts	(8,047)	(594)
Ending balance	₩ 1,131,852	₩ 753,696

( 3 ) The allowance for possible loan losses compared to total loans, net of present value discount, was summarized as follows (Unit: In millions):

Classification	2008	2007	2006
Loans (*1)	₩ 66,768,095	₩ 55,705,353	₩ 47,106,926
Allowance for possible loan losses (*2)	1,093,811	704,074	598,426
Percentage (%)	1.64	1.26	1.27

(\*1) Call loans, bonds purchased under repurchase agreements and interbank loans in foreign currencies are excluded.

(\*2) Present value discounts are excluded.

## 10. Tangible assets

( 1 ) Tangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Tangible assets	₩ 2,252,934	₩ 1,666,440
Less: accumulated depreciation	(802,354)	(756,551)
	₩ 1,450,580	₩ 909,889

( 2 ) Tangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

<2008>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 938,810	₩ -	₩ 938,810
Construction	541,098	(182,609)	358,489
Leasehold improvements	121,908	(82,565)	39,343
Equipment and vehicles	651,096	(537,180)	113,916
Construction in progress	22	-	22
	₩ 2,252,934	₩ (802,354)	₩ 1,450,580

<2007>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 377,328	₩ -	₩ 377,328
Construction	513,696	(168,003)	345,693
Leasehold improvements	104,236	(68,611)	35,625
Equipment and vehicles	651,519	(519,937)	131,582
Construction in progress	19,661	-	19,661
	₩ 1,666,440	₩ (756,551)	₩ 909,889

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 3 ) The changes in book value of tangible assets for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Reclassification	Disposal	Depreciation	Revaluation excess (*)	Others	Ending
Land	₩ 377,328	₩ 10,702	₩ 17,329	₩ (72)	₩ -	₩ 532,778	₩ 745	₩ 938,810
Buildings	345,693	21,032	2,330	(469)	(13,041)	-	2,944	358,489
Leasehold improvements	35,625	15,469	2	(294)	(13,042)	-	1,583	39,343
Equipment and vehicles	131,582	59,219	-	(4,727)	(71,941)	-	(217)	113,916
Construction in progress	19,661	22	(19,661)	-	-	-	-	22
	₩ 909,889	₩ 106,444	₩ -	₩ (5,562)	₩ (98,024)	₩ 532,778	₩ 5,055	₩ 1,450,580

(\*) Before tax adjustment

( 4 ) The published value of the land was ₩755,083 million and ₩696,977 million as of December 31, 2008 and 2007, respectively, based on the Laws on Disclosure of Land Price and Valuation of Land.

( 5 ) Tangible assets, which have been insured as of December 31, 2008 were as follows (Unit: In millions):

Type of insurance	Asset insured	Insured balance	Insurance company
Property composite	Construction	₩ 339,719	Hyundai Marine & Fire Insurance Co., Ltd.
	Leasehold improvements	44,314	Hyundai Marine & Fire Insurance Co., Ltd.,
	Equipment and vehicles	131,645	ING and others
		₩ 515,678	

( 6 ) The revaluation of tangible assets for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Revaluation profit(*)	Revaluation loss(*)	Ending
Land	₩ 406,032	₩ 558,124	₩ (25,346)	₩ 938,810

(\*) Before tax adjustment

The Bank accounted gain on revaluation of tangible assets of ₩435,337 million, net of deferred tax liabilities amounting to ₩122,787 million, as accumulated other comprehensive income. The Bank accounted the loss on revaluation and deferred tax assets of ₩25,346 million and ₩5,576 million, respectively. Nara and Daewha appraisal firms revaluated the Bank's land as of December 31, 2008.

## 11. Other assets

( 1 ) Other assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Guarantee deposits paid	₩ 659,883	₩ 624,768
Accounts receivable	5,217,384	5,931,028
Accrued income	412,834	320,582
Prepaid expenses	21,772	10,819
Deferred income tax assets (see Note 22)	29,340	10,948
Derivatives assets (see Note 17)	4,673,463	786,570
Intangible assets	66,522	81,059
Sundry assets	1,310,085	1,137,764
	₩ 12,391,283	₩ 8,903,538

( 2 ) Intangible assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

<2008>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 196,887	₩ (131,182)	₩ 65,705
Others (*)	2,754	(1,937)	817
	₩ 199,641	₩ (133,119)	₩ 66,522

(\*) The effect of exchange rate fluctuation is included.



KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

&lt;2007&gt;

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 180,973	₩ (100,702)	₩ 80,271
Others (*)	4,866	(4,078)	788
	₩ 185,839	₩ (104,780)	₩ 81,059

(\*) The effect of exchange rate fluctuation is included.

( 3 ) The changes in intangible assets for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Disposal	Amortization	Change in foreign currencies	Ending
Development expenditures	₩ 80,271	₩ 16,299	₩ -	₩ (30,865)	₩ -	₩ 65,705
Others	788	304	-	(484)	209	817
	₩ 81,059	₩ 16,603	₩ -	₩ (31,349)	₩ 209	₩ 66,522

( 4 ) Sundry assets as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Suspense payments in Won	₩ 94,743	₩ 54,547
Suspense payments in foreign currencies	8,949	3,259
Deposited money	5,051	4,231
Cash sending to other banks	20,147	19,682
Domestic exchange settlement debits	200	-
Bills unsettled	1,153,061	1,002,749
Unsettled inter-office transaction	18,611	42,633
Others	9,323	10,663
	₩ 1,310,085	₩ 1,137,764

## 12. Deposits

( 1 ) Deposits as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Demand deposits	₩ 24,110,040	₩ 21,751,581
Time deposits	31,031,532	21,329,740
Negotiable certificates of deposits	7,422,018	5,590,033
	₩ 62,563,590	₩ 48,671,354

( 2 ) Details of deposits as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Demand deposits:		
Demand deposits in Won	₩ 18,992,722	₩ 17,949,291
Demand deposits in foreign currencies	5,117,318	3,802,290
	24,110,040	21,751,581
Time deposits:		
Time deposits in Won	21,937,233	14,829,065
Time deposits in foreign currencies	9,030,434	6,396,506
Mutual installment savings	63,865	104,169
	31,031,532	21,329,740
Negotiable certificates of deposits	7,422,018	5,590,033
	₩ 62,563,590	₩ 48,671,354

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 3 ) Deposits with financial institutions as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 6,647	₩ 197,718	₩ 67,048	₩ 271,413
Demand deposits in foreign currencies	133,737	11,330	208,204	353,271
Time deposits:				
Savings deposits in Won	913,968	2,811,364	22,012	3,747,344
Savings deposits in foreign currencies	322,765	537,917	4,165	864,847
Negotiable certificates of deposits	51,000	2,581,994	-	2,632,994
	₩ 1,428,117	₩ 6,140,323	₩ 301,429	₩ 7,869,869

<2007>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 2,196,375	₩ 1,353,455	₩ 46,306	₩ 3,596,136
Demand deposits in foreign currencies	395,004	14,830	123,755	533,589
Time deposits:				
Savings deposits in Won	90,000	3,780,311	67,430	3,937,741
Savings deposits in foreign currencies	-	133,619	-	133,619
Negotiable certificates of deposits	204,849	165,625	-	370,474
	₩ 2,886,228	₩ 5,447,840	₩ 237,491	₩ 8,571,559

( 4 ) Term structure of deposits as of December 31, 2008 was as follows (Unit: In millions):

Classification	Deposits in Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in less than one year	₩ 38,705,363	₩ 13,969,832	₩ 7,392,000	₩ 60,067,195
Due from one to two years	714,754	65,583	30,018	810,355
Due from two to three years	243,663	72,251	-	315,914
Due from three to five years	156,872	40,086	-	196,958
Due after five years	1,173,168	-	-	1,173,168
	₩ 40,993,820	₩ 14,147,752	₩ 7,422,018	₩ 62,563,590

## 13. Borrowings

( 1 ) Borrowings as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Call money	₩ 2,664,341	₩ 854,566
Bills sold	31,491	64,009
Bonds sold under repurchase agreements	432,384	444,762
Borrowings	9,252,475	7,968,927
Debentures	11,221,427	8,855,629
Less: Discount on debentures	(45,517)	(38,660)
	₩ 23,556,601	₩ 18,149,233

( 2 ) Call money as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Call money in Won	Financial institution in Korea and others	-	₩ -	₩ 39,700
Call money in foreign currencies	Foreign financial institution and others	1.25~8.80	2,664,341	814,866
			₩ 2,664,341	₩ 854,566

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 3 ) Bills sold, bonds sold under repurchase agreements and due to BOK in foreign currencies as of December 31, 2008 and 2007 consisted of the following (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Bills sold	General customer	1.80~6.86	₩ 31,491	₩ 64,009
Bonds sold under repurchase agreements	General customer and others	3.20~8.00	432,384	444,762
			₩ 463,875	₩ 508,771

( 4 ) Borrowings as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%) Dec. 31, 2008	2008	2007
Borrowings in Won:				
Borrowings from the BOK	BOK	1.75~2.25	₩ 837,166	₩ 641,864
Borrowings from the Korean government	Ministry of Finance and Economy, and others	1.50~5.41	309,342	282,046
Borrowings from banking institutions	Industrial Bank of Korea	1.00~6.03	128,409	268,194
Other borrowings	Small Business Corporation and others	0.00~5.83	551,564	571,118
			1,826,481	1,763,222
Borrowings in foreign currencies:				
Refinance	Korea Exim Bank and others	3.89~6.62	1,235,760	541,341
Short term borrowing in foreign currencies	Foreign financial institution	1.85~6.99	3,340,359	3,588,669
Middle and long term borrowing in foreign currencies	SMBC and others	2.87~6.43	725,753	847,961
Borrowings from banks for sub-loan	Industrial Bank of Korea and others	-	-	1,589
Other borrowings	Foreign financial institution	2.35~10.50	2,124,122	1,226,145
			7,425,994	6,205,705
			₩ 9,252,475	₩ 7,968,927

( 5 ) In the normal course of funding activities, the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2008 [see Note 6(7)].

( 6 ) Debentures

1) Debentures as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Account	Annual interest rate (%) Dec. 31, 2008	2008	2007
Debentures in Won:			
Finance debentures	4.89~8.90	₩ 8,511,000	₩ 7,010,000
Subordinated financing debentures	4.90~7.80	1,367,109	694,513
Hybrid debentures	8.50	250,000	250,000
		10,128,109	7,954,513
Discounts on debentures		(40,620)	(34,752)
		10,087,489	7,919,761
Debentures in foreign currencies:			
Finance debentures	0.90~4.83	703,259	619,257
Subordinated financing debentures	5.00	390,059	281,859
		1,093,318	901,116
Discounts on debentures		(4,897)	(3,908)
		1,088,421	897,208
		₩ 11,175,910	₩ 8,816,969

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

2) As of December 31, 2008, all finance debentures issued in Won were general debentures and consisted of (Unit: In millions):

Issued date	Expiration date	Annual interest rates (%)	2008	2007
		Dec. 31, 2008		
Oct. 26, 2005	Oct. 26, 2008	5.32	₩ -	₩ 50,000
Jan. 03, 2006	Jan. 03, 2008	5.27	-	30,000
Jan. 04, 2006	Jan. 04, 2008	5.18	-	40,000
Jan. 11, 2006	Jan. 11, 2008	5.20	-	50,000
Jan. 13, 2006	Jan. 13, 2008	5.10	-	50,000
Feb. 08, 2006	Feb. 08, 2008	5.06	-	50,000
Apr. 04, 2006	Apr. 04, 2008	5.04	-	30,000
Apr. 05, 2006	Apr. 05, 2008	5.03	-	50,000
Apr. 11, 2006	Apr. 11, 2008	5.01	-	20,000
Apr. 12, 2006	Apr. 12, 2008	5.00	-	40,000
Apr. 19, 2006	Apr. 19, 2008	5.07	-	50,000
Apr. 25, 2006	Apr. 25, 2008	5.01	-	50,000
May 03, 2006	May 03, 2008	4.96	-	10,000
May 08, 2006	May 08, 2008	4.93	-	50,000
May 11, 2006	May 11, 2008	4.91	-	30,000
May 12, 2006	May 12, 2008	4.91	-	50,000
May 16, 2006	May 16, 2008	4.94	-	50,000
May 17, 2006	May 17, 2008	4.91	-	50,000
May 19, 2006	May 19, 2008	4.88	-	50,000
Jul. 04, 2006	Jul. 04, 2008	5.05	-	50,000
Jul. 05, 2006	Jul. 05, 2008	5.02	-	50,000
Jul. 06, 2006	Jul. 06, 2008	5.00	-	50,000
Jul. 19, 2006	Jul. 19, 2008	5.03	-	50,000
Jul. 26, 2006	Jan. 26, 2008	4.99	-	50,000
Nov. 13, 2006	Nov. 13, 2009	5.03	50,000	50,000
Nov. 17, 2006	Nov. 17, 2009	4.89	50,000	50,000
Dec. 04, 2006	Dec. 04, 2008	4.94	-	10,000
Dec. 06, 2006	Dec. 06, 2008	4.92	-	10,000
Dec. 06, 2006	Dec. 06, 2009	4.98	40,000	40,000
Dec. 08, 2006	Dec. 08, 2008	4.89	-	30,000
Dec. 11, 2006	Dec. 11, 2009	5.00	50,000	50,000
Dec. 12, 2006	Dec. 12, 2008	4.96	-	50,000
Dec. 13, 2006	Dec. 13, 2008	4.95	-	50,000
Dec. 14, 2006	Dec. 14, 2008	4.97	-	50,000
Dec. 15, 2006	Dec. 15, 2008	4.99	-	120,000
Dec. 18, 2006	Dec. 18, 2008	5.04	-	20,000
Dec. 19, 2006	Dec. 19, 2008	5.00	-	50,000
Dec. 20, 2006	Dec. 20, 2008	5.02	-	20,000
Jan. 09, 2007	Jan. 09, 2009	5.07	50,000	50,000
Jan. 10, 2007	Jan. 10, 2010	5.10	50,000	50,000
Jan. 11, 2007	Jan. 11, 2010	5.09	50,000	50,000
Jan. 16, 2007	Jan. 16, 2008	5.09	-	40,000
Jan. 17, 2007	Jan. 17, 2009	5.15	50,000	50,000
Jan. 18, 2007	Jan. 18, 2009	5.17	20,000	20,000
Jan. 18, 2007	Jan. 18, 2010	5.20	30,000	30,000
Jan. 19, 2007	Jan. 19, 2009	5.16	50,000	50,000
Jan. 25, 2007	Jan. 25, 2009	5.20	20,000	20,000
Jan. 25, 2007	Jan. 25, 2010	5.23	30,000	30,000
Jan. 26, 2007	Jan. 26, 2010	5.47	30,000	30,000

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rates (%) Dec. 31, 2008	2008	2007
Feb. 05, 2007	Feb. 05, 2010	5.23	₩ 50,000	₩ 50,000
Feb. 06, 2007	Feb. 06, 2008	5.10	-	10,000
Feb. 06, 2007	Aug. 06, 2008	5.14	-	30,000
Feb. 09, 2007	Feb. 09, 2010	5.14	50,000	50,000
Feb. 14, 2007	Feb. 14, 2008	5.09	-	40,000
Feb. 14, 2007	Aug. 14, 2008	5.11	-	10,000
Feb. 15, 2007	Feb. 15, 2008	5.05	-	30,000
Feb. 15, 2007	Aug. 15, 2008	5.06	-	60,000
Feb. 16, 2007	Aug. 16, 2008	5.05	-	20,000
Feb. 23, 2007	Aug. 23, 2008	5.03	-	10,000
Feb. 28, 2007	Feb. 28, 2010	5.05	30,000	30,000
Mar. 02, 2007	Mar. 02, 2008	5.03	-	10,000
Mar. 09, 2007	Mar. 09, 2008	5.00	-	40,000
Mar. 12, 2007	Mar. 12, 2008	5.03	-	30,000
Mar. 15, 2007	Mar. 15, 2008	5.03	-	30,000
Mar. 15, 2007	Mar. 15, 2009	5.06	20,000	20,000
Mar. 16, 2007	Mar. 16, 2009	5.05	50,000	50,000
Mar. 23, 2007	Sep. 23, 2008	5.02	-	70,000
Mar. 27, 2007	Mar. 27, 2008	5.01	-	20,000
Mar. 27, 2007	Mar. 27, 2009	5.03	30,000	30,000
Mar. 27, 2007	Mar. 27, 2009	5.21	40,000	40,000
Mar. 27, 2007	Mar. 27, 2010	5.26	10,000	10,000
Mar. 29, 2007	Sep. 29, 2008	5.02	-	10,000
Apr. 03, 2007	Apr. 03, 2009	5.05	50,000	50,000
Apr. 18, 2007	Oct. 18, 2008	5.11	-	10,000
Apr. 19, 2007	Oct. 19, 2008	5.10	-	20,000
Apr. 24, 2007	Oct. 24, 2008	5.15	-	20,000
May 02, 2007	May 02, 2009	5.24	50,000	50,000
May 03, 2007	Nov. 03, 2008	5.20	-	30,000
May 08, 2007	May 08, 2008	5.18	-	10,000
May 08, 2007	May 08, 2009	5.24	10,000	10,000
May 09, 2007	May 09, 2009	5.27	20,000	20,000
May 14, 2007	May 14, 2008	5.22	-	10,000
May 14, 2007	May 14, 2010	5.32	40,000	40,000
May 15, 2007	May 15, 2008	5.24	-	10,000
May 15, 2007	May 15, 2009	5.28	20,000	20,000
May 16, 2007	May 16, 2010	5.35	50,000	50,000
May 17, 2007	May 17, 2010	5.36	50,000	50,000
May 21, 2007	May 21, 2009	5.33	20,000	20,000
May 21, 2007	May 21, 2010	5.39	30,000	30,000
May 23, 2007	May 23, 2010	5.38	100,000	100,000
May 25, 2007	May 25, 2010	5.67	40,000	40,000
May 29, 2007	May 29, 2008	5.22	-	50,000
May 30, 2007	May 30, 2010	5.36	50,000	50,000
Jun. 01, 2007	Jun. 01, 2010	5.37	50,000	50,000
Jun. 05, 2007	Jun. 05, 2009	5.28	50,000	50,000
Jun. 13, 2007	Jun. 13, 2010	5.49	50,000	50,000
Jun. 15, 2007	Dec. 15, 2008	5.35	-	50,000
Jun. 18, 2007	Jun. 18, 2009	5.39	30,000	30,000
Jun. 26, 2007	Jun. 26, 2009	5.40	50,000	50,000
Jun. 28, 2007	Jun. 28, 2010	5.44	50,000	50,000

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rates (%) Dec. 31, 2008	2008		2007	
			₩		₩	
Jul. 10, 2007	Jul. 10, 2009	5.50	₩	50,000	₩	50,000
Jul. 11, 2007	Jul. 11, 2009	5.50		50,000		50,000
Jul. 16, 2007	Jul. 16, 2008	5.40		-		40,000
Jul. 16, 2007	Jan. 16, 2009	5.53		10,000		10,000
Jul. 18, 2007	Jul. 18, 2008	5.41		-		40,000
Jul. 19, 2007	Jan. 19, 2009	5.53		50,000		50,000
Jul. 24, 2007	Jan. 24, 2009	5.52		30,000		30,000
Jul. 24, 2007	Jul. 24, 2010	5.60		20,000		20,000
Jul. 25, 2007	Jul. 25, 2010	5.61		50,000		50,000
Jul. 26, 2007	Jan. 26, 2009	5.51		40,000		40,000
Jul. 26, 2007	Jul. 26, 2009	5.55		10,000		10,000
Jul. 30, 2007	Jul. 30, 2010	5.53		30,000		30,000
Jul. 31, 2007	Jul. 31, 2009	5.48		20,000		20,000
Jul. 31, 2007	Jul. 31, 2010	5.53		30,000		30,000
Aug. 01, 2007	Aug. 01, 2009	5.45		20,000		20,000
Aug. 03, 2007	Aug. 03, 2009	5.44		40,000		40,000
Aug. 03, 2007	Aug. 03, 2010	5.48		10,000		10,000
Aug. 08, 2007	Feb. 08, 2009	5.91		10,000		10,000
Aug. 09, 2007	Aug. 09, 2009	5.57		40,000		40,000
Aug. 14, 2007	Aug. 14, 2010	5.58		10,000		10,000
Aug. 23, 2007	Aug. 23, 2010	5.65		30,000		30,000
Aug. 24, 2007	Aug. 24, 2010	5.67		50,000		50,000
Aug. 28, 2007	Aug. 28, 2008	5.50		-		10,000
Aug. 29, 2007	Aug. 29, 2008	5.50		-		10,000
Sep. 10, 2007	Sep. 10, 2010	5.77		200,000		200,000
Sep. 17, 2007	Sep. 17, 2009	6.00		20,000		20,000
Sep. 17, 2007	Sep. 17, 2010	6.06		20,000		20,000
Sep. 20, 2007	Sep. 20, 2008	5.64		-		50,000
Sep. 27, 2007	Sep. 27, 2008	5.65		-		50,000
Oct. 02, 2007	Apr. 02, 2009	5.77		50,000		50,000
Oct. 09, 2007	Oct. 09, 2008	5.65		-		10,000
Oct. 09, 2007	Apr. 09, 2009	5.77		20,000		20,000
Oct. 10, 2007	Oct. 10, 2010	5.93		200,000		200,000
Oct. 11, 2007	Oct. 11, 2008	5.65		-		24,000
Oct. 11, 2007	Apr. 11, 2009	5.78		26,000		26,000
Oct. 12, 2007	Apr. 12, 2009	5.80		50,000		50,000
Oct. 16, 2007	Apr. 16, 2009	5.81		140,000		140,000
Oct. 17, 2007	Apr. 17, 2009	5.80		50,000		50,000
Oct. 18, 2007	Oct. 18, 2009	5.84		30,000		30,000
Oct. 18, 2007	Oct. 18, 2010	5.91		70,000		70,000
Oct. 23, 2007	Oct. 23, 2010	5.84		10,000		10,000
Oct. 24, 2007	Oct. 24, 2008	5.65		-		10,000
Oct. 24, 2007	Oct. 24, 2009	5.78		40,000		40,000
Oct. 25, 2007	Oct. 25, 2008	5.65		-		40,000
Oct. 26, 2007	Apr. 26, 2009	5.74		20,000		20,000
Oct. 29, 2007	Oct. 29, 2008	5.69		-		40,000
Oct. 29, 2007	Apr. 29, 2009	5.76		30,000		30,000
Oct. 30, 2007	Oct. 30, 2008	5.70		-		190,000
Oct. 30, 2007	Apr. 30, 2009	5.76		30,000		30,000
Nov. 02, 2007	Nov. 02, 2009	5.86		40,000		40,000
Nov. 05, 2007	Nov. 05, 2008	5.72		-		50,000

# Notes to Consolidated Financial Statements

159

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rates (%) Dec. 31, 2008	2008	2007
Nov. 06, 2007	Nov. 06, 2008	5.72	₩ -	₩ 10,000
Nov. 08, 2007	Nov. 08, 2010	5.88	200,000	200,000
Nov. 14, 2007	Nov. 14, 2010	5.94	50,000	50,000
Nov. 23, 2007	Nov. 23, 2010	6.22	70,000	70,000
Nov. 26, 2007	Nov. 26, 2010	6.25	260,000	260,000
Nov. 30, 2007	Nov. 30, 2010	6.63	170,000	170,000
Dec. 05, 2007	Dec. 05, 2010	6.70	140,000	140,000
Dec. 17, 2007	Dec. 17, 2008	6.33	-	110,000
Jan. 10, 2008	Jul. 10, 2009	6.69	50,000	-
Jan. 11, 2008	Jul. 11, 2009	6.59	50,000	-
Jan. 15, 2008	Jan. 15, 2010	6.39	50,000	-
Jan. 23, 2008	Jul. 23, 2009	5.67	50,000	-
Jan. 29, 2008	Jul. 29, 2009	5.46	20,000	-
Jan. 30, 2008	Jul. 30, 2008	5.42	50,000	-
Jan. 31, 2008	Jan. 31, 2009	5.30	30,000	-
Feb. 15, 2008	Feb. 15, 2010	5.30	30,000	-
Mar. 04, 2008	Sep. 04, 2009	6.20	30,000	-
Mar. 04, 2008	Mar. 04, 2011	6.32	20,000	-
Mar. 28, 2008	Sep. 28, 2009	5.77	50,000	-
Apr. 01, 2008	Oct. 01, 2009	5.70	50,000	-
Apr. 02, 2008	Oct. 02, 2009	5.77	100,000	-
Apr. 04, 2008	Oct. 04, 2009	5.75	50,000	-
Apr. 07, 2008	Apr. 07, 2009	6.16	20,000	-
Apr. 07, 2008	Oct. 07, 2009	5.75	30,000	-
Apr. 10, 2008	Apr. 10, 2010	5.71	200,000	-
Apr. 11, 2008	Apr. 11, 2009	5.51	100,000	-
Apr. 14, 2008	Oct. 14, 2009	5.55	50,000	-
Apr. 15, 2008	Apr. 15, 2010	5.58	50,000	-
Apr. 16, 2008	Apr. 16, 2010	5.54	50,000	-
Apr. 17, 2008	Apr. 17, 2010	5.52	50,000	-
Apr. 18, 2008	Apr. 18, 2010	5.50	50,000	-
Apr. 21, 2008	Apr. 21, 2009	5.45	50,000	-
Apr. 24, 2008	Oct. 24, 2009	5.45	10,000	-
Apr. 24, 2008	Apr. 24, 2010	5.47	40,000	-
Apr. 29, 2008	Apr. 29, 2010	5.42	10,000	-
Apr. 30, 2008	Apr. 30, 2010	5.39	50,000	-
May 08, 2008	May 08, 2010	5.56	10,000	-
May 14, 2008	Nov. 14, 2009	5.75	50,000	-
May 15, 2008	May 15, 2010	5.80	20,000	-
May 16, 2008	May 16, 2011	5.87	100,000	-
May 22, 2008	May 22, 2011	5.93	100,000	-
May 23, 2008	May 23, 2011	5.92	30,000	-
May 26, 2008	May 26, 2010	5.87	10,000	-
May 26, 2008	Nov. 26, 2010	5.92	10,000	-
May 27, 2008	Nov. 27, 2009	5.79	200,000	-
May 27, 2008	May 27, 2010	5.85	20,000	-
May 28, 2008	May 28, 2010	5.82	10,000	-
May 29, 2008	May 29, 2010	5.90	50,000	-
May 30, 2008	May 30, 2009	5.63	20,000	-
May 30, 2008	Nov. 30, 2009	5.85	70,000	-
Jun. 03, 2008	Jun. 03, 2010	5.98	20,000	-



## Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

Issued date	Expiration date	Annual interest rates (%) Dec. 31, 2008	2008	2007
Jun. 05, 2008	Jun. 05, 2009	5.69	₩ 40,000	₩ -
Jun. 05, 2008	Jun. 05, 2010	5.98	60,000	-
Jun. 12, 2008	Jun. 12, 2009	5.90	20,000	-
Jun. 12, 2008	Jun. 12, 2010	6.17	70,000	-
Jun. 16, 2008	Jun. 16, 2009	5.91	10,000	-
Jun. 16, 2008	Jun. 16, 2010	6.20	40,000	-
Jun. 18, 2008	Jun. 18, 2009	5.85	20,000	-
Jun. 18, 2008	Dec. 18, 2009	6.08	40,000	-
Jun. 19, 2008	Dec. 19, 2009	6.11	40,000	-
Jun. 19, 2008	Jun. 19, 2010	6.17	10,000	-
Jun. 24, 2008	Jun. 24, 2009	6.01	30,000	-
Jun. 24, 2008	Dec. 24, 2009	6.28	20,000	-
Jun. 24, 2008	Jun. 24, 2010	7.32	30,000	-
Jun. 24, 2008	Jun. 24, 2010	7.37	10,000	-
Jun. 26, 2008	Dec. 26, 2009	6.25	20,000	-
Jun. 26, 2008	Jun. 26, 2010	6.31	30,000	-
Jul. 01, 2008	Jul. 01, 2009	6.02	10,000	-
Jul. 03, 2008	Jul. 03, 2009	6.11	10,000	-
Jul. 04, 2008	Jul. 04, 2009	6.17	10,000	-
Jul. 04, 2008	Jul. 04, 2010	6.60	10,000	-
Jul. 16, 2008	Jan. 16, 2010	6.87	40,000	-
Jul. 17, 2008	Jul. 17, 2009	6.54	110,000	-
Jul. 17, 2008	Jul. 17, 2010	6.92	10,000	-
Jul. 18, 2008	Jan. 18, 2010	6.80	200,000	-
Aug. 19, 2008	Aug. 19, 2009	6.03	120,000	-
Aug. 21, 2008	Aug. 21, 2010	7.17	180,000	-
Sep. 01, 2008	Sep. 01, 2010	7.05	130,000	-
Sep. 04, 2008	Sep. 04, 2010	7.20	120,000	-
Sep. 11, 2008	Sep. 11, 2009	6.64	70,000	-
Sep. 12, 2008	Sep. 12, 2009	6.62	50,000	-
Sep. 26, 2008	Sep. 26, 2009	7.10	80,000	-
Sep. 29, 2008	Sep. 29, 2009	7.20	100,000	-
Oct. 20, 2008	Oct. 20, 2009	7.61	45,000	-
Oct. 29, 2008	Oct. 29, 2011	7.73	200,000	-
Nov. 06, 2008	Nov. 06, 2009	8.90	20,000	-
Dec. 15, 2008	Dec. 15, 2009	6.20	200,000	-
			₩ 8,511,000	₩ 7,010,000

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

3) Finance debentures issued in foreign currencies as of December 31, 2008 and 2007 consisted of (Unit: In thousands of U.S. Dollars, in millions of Won):

First underwriter	Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2008	-	₩ -	₩ 45,034 (US\$48,000)
DBS	Jan. 25, 2007	Jan. 25, 2008	-	-	32,447 (US\$34,585)
BOA	Feb. 16, 2007	Feb. 19, 2008	-	-	18,760 (US\$19,999)
HSBC	Mar. 14, 2007	Mar. 14, 2008	-	-	46,901 (US\$49,998)
NH Investment & Securities Korea Investment & Securities	Jul. 13, 2007	May 25, 2010	5.48	50,300 (US\$40,000)	37,528 (US\$40,000)
Calyon	Jul. 20, 2007	Jul. 20, 2012	4.83	377,250 (US\$300,000)	281,460 (US\$300,000)
NAB (*1)	Oct. 15, 2007	Oct. 15, 2009	4.79	32,450 (US\$25,800)	24,052 (US\$25,640)
MIZUHO	Oct. 29, 2007	Oct. 29, 2009	3.88	62,875 (US\$50,000)	46,910 (US\$50,000)
MIZUHO	Oct. 30, 2007	Oct. 30, 2009	3.85	25,150 (US\$20,000)	18,764 (US\$20,000)
NAB (*2)	Nov. 05, 2007	Nov. 05, 2008	-	-	45,699 (US\$48,716)
NAB (*3)	Nov. 07, 2007	Nov. 07, 2008	-	-	19,242 (US\$20,512)
SMBC, Tokyo (*4)	Sep. 12, 2008	Sep. 12, 2011	0.90	139,389 (US\$110,850)	-
Others	-	-	-	15,845 (US\$12,600)	2,460 (US\$2,622)
				₩ 703,259 (US\$559,250)	₩ 619,257 (US\$660,072)

(\*1) Issued in Hong Kong dollar (HKD) amounting to HKD 200 million

(\*2) Issued in Hong Kong dollar (HKD) amounting to HKD 380 million

(\*3) Issued in Hong Kong dollar (HKD) amounting to HKD 160 million

(\*4) Issued in Japan yen (JPY) amounting to JPY 10,000 million

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

4) Subordinated debentures as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	Issued date	Expiration date	Annual interest rate (%) Dec. 31, 2008	2008	2007
Debentures in Won:					
General sale (*1)	May 28, 2001	Feb. 28, 2007	-	₩ 387	₩ 2,009
General sale (*1)	Oct. 28, 2002	Jan. 28, 2008	-	290	200,000
General sale (*1)	Mar. 28, 2003	Dec. 28, 2008	-	16,432	242,504
Underwriting sale (*2)	Oct. 21, 2004	Oct. 21, 2014	5.10	170,000	170,000
General sale (*2)	Nov. 28, 2004	Nov. 28, 2014	4.90	80,000	80,000
Underwriting sale (*2)	Mar. 13, 2008	Mar. 13, 2018	6.11	250,000	-
General sale (*2)	Mar. 28, 2008	Mar. 28, 2018	6.20	50,000	-
General sale	Nov. 21, 2008	May 21, 2014	7.70	60,860	-
General sale	Nov. 24, 2008	May 24, 2014	7.70	32,060	-
General sale	Nov. 25, 2008	May 25, 2014	7.70	27,570	-
General sale	Nov. 26, 2008	May 26, 2014	7.70	40,880	-
General sale	Nov. 27, 2008	May 27, 2014	7.70	37,651	-
General sale	Nov. 28, 2008	May 28, 2014	7.70	78,926	-
General sale	Dec. 01, 2008	Jun. 01, 2014	7.70	22,053	-
General sale	Dec. 19, 2008	Jun. 19, 2014	7.80	250,000	-
General sale	Dec. 22, 2008	Jun. 22, 2014	7.30	34,060	-
General sale	Dec. 23, 2008	Jun. 23, 2014	7.30	18,690	-
General sale	Dec. 24, 2008	Jun. 24, 2014	7.30	23,948	-
General sale	Dec. 26, 2008	Jun. 26, 2014	7.30	32,979	-
General sale	Dec. 29, 2008	Jun. 29, 2014	7.30	93,487	-
General sale	Dec. 30, 2008	Jun. 30, 2014	7.80	46,836	-
Underwriting sale				1,367,109	694,513
Debentures in foreign currencies:					
CITI group & HSBC (*2, *3)	Jun. 10, 2005	Jun. 10, 2015	5.00	390,059 (US\$310,186)	281,859 (US\$300,426)
				₩ 1,757,168	₩ 976,372

(\*1) The balance amount was not redeemed at the maturity date, and after the maturity date, interest is not paid.

(\*2) After 5 years from issuance date, the optional early redemption right can be exercised by the Bank.

(\*3) The first underwriters

In addition, certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Loss on valuation of derivatives amounting to ₩12,328 million and ₩9,293 million was accounted for in connection to such contracts for the years ended December 31, 2008 and 2007, respectively.

5) As of December 31, 2008 and 2007, Hybrid Tier 1 bond was as follows (Unit: In millions):

Classification	Issued period (*2)	Annual interest rate (%) (*3)	2008	2007
Hybrid debentures 1st (*1)	May 28, 2003 ~ May 28, 2033	8.50	₩ 250,000	₩ 250,000

(\*1) After 5 years from issuance date, call option can be exercised under the authorization of the Governor of the Financial Supervisory Service.

(\*2) After expiration, the bond can be extended under the same terms.

(\*3) After 10 years from issuance date, the interest rate increases to 10.0%.

( 7 ) Term structure of borrowings as of December 31, 2008 was as follows (Unit: In millions):

Classification	Borrowing in Won	Borrowing in foreign currencies	Debentures in Won	Debentures in foreign currencies	Total
Due in less than one year	₩ 936,299	₩ 7,165,813	₩ 3,948,109	₩ 136,320	₩ 12,186,541
Due from one to two years	83,532	254,032	4,130,000	50,300	4,517,864
Due from two to three years	77,941	6,149	450,000	139,389	673,479
Due from three to five years	316,306	-	-	377,250	693,556
Due after five years	412,403	-	1,600,000	390,059	2,402,462
	₩ 1,826,481	₩ 7,425,994	₩ 10,128,109	₩ 1,093,318	₩ 20,473,902

## 14. Other Liabilities

( 1 ) Other liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Accounts payable	₩ 5,356,833	₩ 6,235,955
Accrued expenses (see Notes 17 and 19)	1,010,843	743,056
Unearned revenues	111,930	93,497
Guarantee money received	235,367	214,429
Accrued payable foreign exchange	208,461	338,981
Deferred income tax liabilities	91,425	178,817
Derivatives instruments liabilities (see Note 16)	4,561,680	805,501
Due to trust accounts	886,595	609,298
Accrued severance benefits (see Note 3)	294,797	265,369
Pension benefit	4,524	-
Less: Asset under management of pension benefits	(2,925)	-
Less: Funds transferred to National Pension	(686)	(743)
Less: Due to retirement insurance	(228,659)	(184,198)
Liability reserve for acceptances and guarantees	59,283	56,085
Liability reserve for unused credit limit	183,272	196,813
Allowance for other liabilities (see Note 17)	137,341	108,259
Sundry liabilities	1,604,586	1,783,547
	₩ 14,514,667	₩ 11,444,666

( 2 ) Accrued severance benefits

1) The changes in accrued severance benefits for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Beginning	₩ 265,369	₩ 223,694
Provision (*1)	46,591	58,137
Payment (*2)	(18,524)	(16,597)
Foreign currencies translation	1,361	135
	294,797	265,369
Pension benefits payables	4,524	-
Assets under management of pension benefits	(2,925)	-
Funds transferred to National Pension	(686)	(743)
Due to Retirement Insurance	(228,659)	(184,198)
	₩ 67,051	₩ 80,428

(\*1) The difference from severance benefits in the income statement (see Note 19) amounting to ₩1,923 million is provision on accounts payable of severance pension.

(\*2) The payment of severance benefits amounting to ₩143 million for the year ended December 31, 2008 is accounted as accounts payable.

As of December 31, 2008, parts of severance benefits were contributed to pension funds of Samsung Life Insurance Co., Ltd. and others.

2) The pension benefits payables and assets under management of pension benefits are ₩4,524 million and ₩2,925 million, respectively. The Bank reserved ₩1,923 million for accrued severance benefits for the year ended December 31, 2008.

As of December 31, 2008, the assets under management of pension benefits are as follows (Unit: In millions):

Classification	Percentage (%)
Cash and due from banks	14.78
Securities	85.22
	100.00

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 3 ) Liability reserve for acceptances and guarantees

1) Acceptances and guarantees as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Confirmed acceptances and guarantees in Won:		
Payment guarantee for issuance of debentures	₩ 4,478	₩ 2,253
Acceptances for letters of guarantee for importers	-	719
Payment guarantee for loans	93,214	70,658
Others	701,618	1,650,183
	799,310	1,723,813
Confirmed acceptances and guarantees in foreign currencies:		
Acceptances on letters of credit	395,664	280,958
Acceptances for letters of guarantee for importers	52,841	116,944
Credit derivatives-sold	-	47,489
Others	6,222,561	3,212,635
	6,671,066	3,658,026
Unconfirmed acceptances and guarantees:		
Letters of credit	3,820,754	4,793,835
Others	348,040	20,131
	4,168,794	4,813,966
Bills endorsed	63,533	62,165
	₩ 11,702,703	₩ 10,257,970

2) The classification of asset quality for acceptances and guarantees and liability reserve for acceptances and guarantees as of December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩ 7,450,697	₩ 15,566	₩ 940	₩ 2,465	₩ 708	₩ 7,470,376	₩ 50,152
Unconfirmed acceptances	4,151,562	17,136	20	70	6	4,168,794	8,591
Bills endorsed	63,533	-	-	-	-	63,533	540
	₩11,665,792	₩ 32,702	₩ 960	₩ 2,535	₩ 714	₩ 11,702,703	₩ 59,283

<2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩ 5,373,439	₩ 7,485	₩ 20	₩ 748	₩ 147	₩ 5,381,839	₩ 46,633
Unconfirmed acceptances	4,806,173	3,159	4,522	35	77	4,813,966	8,923
Bills endorsed	62,165	-	-	-	-	62,165	529
	₩10,241,777	₩ 10,644	₩ 4,542	₩ 783	₩ 224	₩10,257,970	₩ 56,085

3) Acceptances and guarantees, by industry, except for the portion of overseas branches as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

By industry	Balance	Percentage (%)
Manufacturing	₩ 3,862,439	56.09
Construction	508,939	7.39
Wholesale/retail	1,278,760	18.57
Finance	313,842	4.56
Electricity, gas and water supply	292,578	4.25
Others	629,887	9.14
	6,886,445	100.00
Confirmed acceptance and guarantees in overseas branches	583,931	
	₩ 7,470,376	

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## &lt;2007&gt;

By industry	Balance	Percentage (%)
Manufacturing	₩ 3,253,373	63.23
Construction	608,254	11.82
Wholesale/retail & service	641,312	12.46
Finance	284,857	5.54
Telecommunication	18,635	0.36
Others	339,070	6.59
	5,145,501	100.00
Confirmed acceptance and guarantees in overseas branches	236,338	
	₩ 5,381,839	

4) Confirmed acceptances and guarantees in foreign currencies, by country, as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

## &lt;2008&gt;

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	\$ 4,763,952	₩ 5,990,670	89.80
USA	128,273	161,303	2.42
France	75,122	94,466	1.42
UK	51,553	64,828	0.96
Germany	47,602	59,860	0.90
Others	238,520	299,939	4.50
	\$ 5,305,022	₩ 6,671,066	100.00

(\*) Foreign currencies other than U.S. Dollars were converted into U.S. Dollars at the basic rates of exchange at balance sheet dates.

## &lt;2007&gt;

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	\$ 3,391,350	₩ 3,181,765	86.97
Taiwan	75,633	70,959	1.94
France	69,252	64,972	1.78
USA	58,817	55,182	1.51
Singapore	40,480	37,978	1.04
Others	263,451	247,170	6.76
	\$ 3,898,983	₩ 3,658,026	100.00

(\*) Foreign currencies other than U.S. Dollars were converted into U.S. Dollars at the basic rates of exchange at balance sheet dates.

5) The percentage of liability reserve for acceptances and guarantees as of December 31, 2008, 2007 and 2006 was as follows (Unit: In millions):

Classification	Acceptances and guarantees	Liability reserve	Percentage (%)
2008	₩ 11,702,703	₩ 59,283	0.51
2007	10,257,970	56,085	0.55
2006	6,504,769	41,142	0.63

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 4 ) Liability reserve for unused credit limit

The calculation of liability reserve for unused credit limit as of December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 14,211,031	₩ 2,081,747	₩ 6,064,418	₩ 93,162
Loans to enterprise	76,503,744	42,880,867	9,544,472	84,807
Loans to household	3,634,249	1,595,976	410,085	4,101
Loans to public and others	11,740	3,463	1,865	16
	₩ 94,360,764	₩ 46,562,053	₩ 16,020,840	182,086
Subsidiaries				1,186
Liability reserve for unused credit limit				₩ 183,272

<2007>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 15,508,197	₩ 2,006,812	₩ 6,750,429	₩ 106,962
Loans to enterprise	65,471,645	25,102,582	9,762,067	85,093
Loans to household	3,405,898	1,429,844	398,239	3,982
Loans to public and others	133,939	83,246	10,139	86
	₩ 84,519,679	₩ 28,622,484	₩ 16,920,874	196,123
Subsidiaries				690
Liability reserve for unused credit limit				₩ 196,813

## ( 5 ) Allowance for other liabilities

Allowance for other liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Reserve for money-back point & yes-point	₩ 25,129	₩ 21,203
Reserve for litigation (see Note 17)	9,348	52,268
Reserve for employees' accident (*1)	8,061	600
Compensation to customers related to Won & Yen swap (*2)	15,962	17,741
Provision for severance and early retirement benefits (*3)	16,464	12,172
Reserve for derivatives assets (*4)	56,153	-
Others (*5)	6,224	4,275
	₩ 137,341	₩ 108,259

(\*1) Provision was made for 5 suspense payments, which occurred in connection with employees' illegal act such as embezzlement.

(\*2) In addition, NTS notified the Bank and its customers of the tax on interest income on Won & Yen swap from 2003 to 2005. The Bank compensated its customers with the condition of entrusting tax appeal procedures. The Bank accounted it as an allowance for other liabilities.

(\*3) The Bank reserved the provision for severance and early retirement benefits for voluntary retirees who have worked for more than 15 years and are more than 40 years old.

(\*4) The Bank reserved the allowance for possible derivatives losses by currency options.

(\*5) The main change is that the Bank were charged ₩1,949 million by Fair Trade Commission in violation of collusion on establishing exchange commission and raising commission on giro.

## ( 6 ) Sundry liabilities

Sundry liabilities as of December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Suspense receipt	₩ 34,112	₩ 256,757
Withholding taxes	37,648	32,193
Agency business accounts	90,848	93,251
Agency	798,615	820,170
Credit control deposits	577	2,150
Guarantee deposits for securities subscription	16,481	14,999
Domestic exchange settlements credits	607,928	536,596
Domestic remittance payable	12,655	16,896
Others	5,722	10,535
	₩ 1,604,586	₩ 1,783,547



## 15. Shareholders' equity

### ( 1 ) Capital stock

Capital stock as of December 31, 2008 and 2007 was as follows (Unit: In millions except per share amounts):

Classification	2008	2007
Shares authorized	1,000,000,000	1,000,000,000
Par share (In currency units)	₩ 5,000	₩ 5,000
Shares issued	644,906,826	644,906,826
Common stock	3,224,534	₩ 3,224,534

### ( 2 ) Capital surplus

The amount of capital surplus as of December 31, 2008 and 2007 was transferred from stock option (accounted for as capital adjustment) since it lapsed as it was not exercised.

### ( 3 ) Capital adjustments

Changes in capital adjustments for the year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning	Increase	Decrease	Ending
Other capital adjustments	₩ (5,722)	₩ -	₩ 1,297	₩ (4,425)

In accordance with SKAS No. 25 - *Consolidated Financial Statements*, the valuation of securities using equity method on oversea subsidiaries as of December 31, 2007 was reclassified to capital surplus (capital adjustment in case of below zero) (See Note 4).

### ( 4 ) Accumulated other comprehensive income

The changes in accumulated other comprehensive income for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Beginning	Changes	Disposal	Deferred income tax	Ending
Gain (loss) on valuation of available-for-sale securities	₩ 1,090,378	₩ (1,098,502)	₩ (2,433)	₩ 324,739	₩ 314,182
Gain (loss) on valuation of held-to-maturity securities	(363)	(2)	94	(48)	(319)
Gain on revaluation of tangible assets	-	558,124	-	(122,787)	435,337
	₩ 1,090,015	₩ (540,380)	₩ (2,339)	₩ 201,904	₩ 749,200

### ( 5 ) Statements of comprehensive income

Comprehensive income consists of all changes in equity during a period from transactions and other events except those resulting from investments by owners and distributions to owners. Comprehensive income for the year ended December 31, 2008 was as follows (Unit: In millions):

Classification	2008	2007
Net income	₩ 782,582	₩ 961,143
Effect of exchange rate fluctuation	21,172	2,291
Retained earnings on trust accounts	116	(391)
Other comprehensive income:		
Gain on valuation of available-for-sale securities	(1,100,935)	(40,424)
Gain on valuation of held-to-maturity securities	92	566
Gain on revaluation of tangible assets	558,124	-
Less: Effect of income tax	201,904	10,960
Comprehensive income	₩ 463,055	₩ 934,145
Controlling company's comprehensive income	₩ 462,726	₩ 933,967
Minority's comprehensive income	₩ 329	₩ 178

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 6 ) Appropriated retained earnings

Appropriated retained earnings as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Legal reserve <sup>(*)1</sup>	₩ 292,600	₩ 196,500
Other reserves <sup>(*)2</sup>	92,998	39,379
	₩ 385,598	₩ 235,897

(\*)1) The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent 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) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10 percent 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 and Hanoi branches' statutory reserves are included in other statutory reserves. In addition, it includes futures transaction reserves by the Act of futures transaction and electronic commerce accident reserve by the Act of electronic commerce reserved by KEBFC.

## 16. Share-based payment

### ( 1 ) The details of the stock options as of December 31, 2008 were as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised	Stock option outstanding	Exercise price	Exercise period
Aug. 26, 2002	725,000	(421,850)	(303,150)	-	₩ 6,300	Aug. 27, 2005~Aug. 26, 2008
Mar. 31, 2003 <sup>(*)</sup>	101,401	-	(80,053)	21,348	13,266	Apr. 01, 2006~Mar. 31, 2009
Sep. 04, 2003 <sup>(*)</sup>	53,369	-	-	53,369	15,533	Sep. 05, 2006~Sep. 04, 2009
Feb. 13, 2004	2,390,000	(567,770)	(1,427,510)	394,720	7,000	Feb. 14, 2006~Feb. 13, 2009
Mar. 07, 2005	1,355,000	(344,895)	(378,225)	631,880	8,800	Mar. 08, 2007~Mar. 07, 2010
Jun. 29, 2005	200,000	(63,230)	(26,340)	110,430	9,000	Jun. 30, 2007~Jun. 29, 2010
Mar. 07, 2006	400,000	(112,690)	-	287,310	13,300	Mar. 08, 2008~Mar. 07, 2011
Aug. 01, 2006	200,000	(42,000)	-	158,000	11,900	Aug. 02, 2008~Aug. 01, 2011
Mar. 08, 2007	1,090,000	(264,990)	-	825,010	13,900	Mar. 09, 2009~Mar. 08, 2012
Mar. 29, 2007	630,000	(221,450)	-	408,550	14,500	Mar. 30, 2009~Mar. 29, 2012
Aug. 10, 2007	380,000	(84,630)	-	295,370	13,900	Aug. 11, 2009~Aug. 10, 2012
Mar. 11, 2008	510,000	(104,000)	-	406,000	13,000	Mar. 12, 2010~Mar. 11, 2013
Aug. 01, 2008	180,000	(24,330)	-	155,670	13,500	Aug. 02, 2010~Aug. 01, 2013
	8,214,770	(2,251,835)	(2,215,278)	3,747,657		

(\*) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of cash equivalent to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria of the number of exercisable shares.

The intrinsic value of compensation cost granted before December 31, 2006 is the difference between the market price and the exercise price pursuant to Interpretations on SKAS 39-35 - *Accounting for Stock Options*, and the fair value of compensation cost granted after January 1, 2007, is estimated by option pricing models pursuant to SKAS No. 22 - *Share-Based Payment*. As a result, the pricing models of stock option of the Bank are categorized as the intrinsic value pricing model and the fair value pricing model. The details of these models as of December 31, 2008 were as follows (Unit: In Won):

#### <Intrinsic value pricing model>

Grant date	Market price <sup>(*)2</sup>	Exercise price	Intrinsic value
Mar. 31, 2003 <sup>(*)1</sup>	₩ 6,911	₩ 13,266	₩ -
Sep. 04, 2003 <sup>(*)1</sup>	6,911	15,533	-
Feb. 13, 2004	6,911	7,000	-
Mar. 07, 2005	6,911	8,800	-
Jun. 29, 2005	6,911	9,000	-
Mar. 07, 2006	6,911	13,300	-
Aug. 01, 2006	6,911	11,900	-

(\*)1) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

(\*)2) Compensation price is measured as average price among the averages for two months, for a month and for a week's stock prices in accordance with the Bank's pricing method.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## <Fair value pricing model – Black-Scholes Model>

Grant date	Risk free rate (%)	Expected exercise period (year) (*1)	Volatility of the underlying stock price (%) (*2)	Expected dividend rate (%) (*3)	Exercised price	Fair value
Mar. 08, 2007	3.35	4.02	46.02	6.31	₩ 13,900	₩ 281
Mar. 29, 2007	3.35	4.02	45.65	6.31	14,500	254
Aug. 10, 2007	3.38	4.02	43.74	6.31	13,900	303
Mar. 11, 2008	3.45	4.02	42.52	6.31	13,000	414
Aug. 01, 2008	3.52	4.02	41.39	6.31	13,500	403

(\*1) The expected exercise period is measured based on the early exercisability of right in the past.

(\*2) The volatility of the underlying stock price is measured based on the volatility in the past.

(\*3) The expected dividend rate is measured based on the dividend rate of simple average of 2006 and 2007.

The changes in long-term accrued expenses recognized for stock option for year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Addition	Deduction (*1)	Ending balance
Long-term accrued expenses	₩ 17,780	₩ 46	₩ (17,507)	₩ 319

(\*1) The deduction by exercise as of December 31, 2008 is ₩5,599 million.

## ( 2 ) The equity linked special incentive (Rose bonus)

The Bank granted the equity linked special incentive to employees for the purpose of motivation to improve long-term performance. The equity linked special incentive as of December 31, 2008 is as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised (*1)	Stock option outstanding	Exercise price	Exercise period
Jul. 15, 2005	3,024,400	(55,206)	(2,778,194)	191,000	₩ -	Jul. 15, 2007~Jul. 14, 2010
Dec. 21, 2006	1,496,510	(28,258)	(5,522)	1,462,730	-	Dec. 21, 2008~Dec. 20, 2011
Dec. 12, 2007	614,800	(5,254)	(626)	608,920	-	Dec. 12, 2009~Dec. 11, 2012
	5,135,710	(88,718)	(2,784,342)	2,262,650		

(\*1) It can be exercised if an employee resigned within two years except for death, retirement age, position change and other cases imputable to an employee.

The equity linked special incentive is cash settlement transaction. It can be exercised since two years after grant date for three years.

The intrinsic value of "Rose bonus" granted before December 31, 2006 is the difference between the market price and the exercise price pursuant to Interpretations on SKAS 39-35 - *Accounting for Stock Options*, and the fair value of "Rose bonus" granted after January 1, 2007, is estimated by option pricing models pursuant to SKAS No. 22 - *Share-Based Payment*. As a result, the pricing models of stock option of the Bank are categorized as the intrinsic value pricing model and the fair value pricing model. The details of these models as of December 31, 2008 are as follows (Unit: In Won):

## <Intrinsic value pricing model>

Grant date	Rose price (*1)	Exercise price	Intrinsic value
Jul. 15, 2005	₩ 9,700	₩ -	₩ 9,700
Dec. 21, 2006	9,700	-	9,700

(\*1) The Rose price is measured as weighted average price (7: 5) of the average stock price for previous five days and net asset value of most recent quarterly settlement as of the last day of the previous month of December 31, 2008.

## <Fair value pricing model – Binomial Model>

Grant date	Risk free rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%) (*1)	Expected dividend rate (%) (*2)	Exercised price	Fair value
Dec. 12, 2007	3.58	5	39.07	-	₩ -	₩ 9,700

(\*1) The volatility of the underlying stock price is measured based on the volatility in the past.

(\*2) The expected dividend rate is zero, since a grantee of "Rose bonus" has the right to be provided with dividends from grant date to excise date.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

The changes in long-term accrued expenses recognized for “Rose bonus” for year ended December 31, 2008 were as follows (Unit: In millions):

	Beginning balance	Addition	Deductio	Ending balance
Long-term accrued expenses	₩ 17,385	₩ 4,728	₩ (2,960)	₩ 19,153

## 17. Contingencies and commitments

### ( 1 ) Derivatives

The notional amounts outstanding for derivative contracts as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Type (*)	2008			2007		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards	₩ 36,046,100	₩ -	₩ 36,046,100	₩ 42,704,051	₩ -	₩ 42,704,051
Currency futures	1,197,281	-	1,197,281	2,828,810	-	2,828,810
Currency swaps	10,457,110	-	10,457,110	6,640,534	-	6,640,534
Currency options purchased	5,598,417	-	5,598,417	6,477,700	-	6,477,700
Currency options sold	5,931,865	-	5,931,865	8,762,723	-	8,762,723
	59,230,773	-	59,230,773	67,413,818	-	67,413,818
Interest rate:						
Interest rate futures	3,232,411	-	3,232,411	779,424	-	779,424
Interest rate swaps	36,942,439	578,450	37,520,889	26,084,129	426,881	26,511,010
	40,174,850	578,450	40,753,300	26,863,553	426,881	27,290,434
Index:						
Stock index futures	3,893	-	3,893	2,178	-	2,178
Stock index purchased	-	-	-	45,648	-	45,648
Stock index sold	48,155	-	48,155	99,628	-	99,628
	52,048	-	52,048	147,454	-	147,454
Credit:						
Credit derivatives purchased	35,000	-	35,000	-	-	-
	35,000	-	35,000	-	-	-
	₩ 99,492,671	₩ 578,450	₩ 100,071,121	₩ 94,424,825	₩ 426,881	₩ 94,851,706

(\*) For transaction between Won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate based on foreign currencies purchased at balance sheet dates.

The details of derivatives as of December 31, 2008, and the valuation of derivatives for the year ended December 31, 2008 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 2,751,438	₩ 1,747,945	₩ -	₩ -	₩ 2,751,438	₩ 1,747,945	₩ 2,775,886	₩ 1,755,534
Currency swaps	542,221	1,420,103	-	-	542,221	1,420,103	524,035	1,367,230
Currency options purchased	648,772	22,393	-	-	648,772	22,393	761,152	-
Currency options sold	25,071	484,396	-	-	25,071	484,396	-	624,508
	3,967,502	3,674,837	-	-	3,967,502	3,674,837	4,061,073	3,747,272
Interest:								
Interest rate swaps	645,033	816,753	12,328	7,818	657,361	824,571	610,590	802,683
Index:								
Stock index purchased	-	-	-	-	-	-	-	-
Stock index sold	7,999	1,980	-	-	7,999	1,980	-	11,725
Credit:								
Credit derivatives purchased	1,556	-	-	-	1,556	-	1,800	-
	₩ 4,622,090	₩ 4,493,570	₩ 12,328	₩ 7,818	₩ 4,634,418	₩ 4,501,388	₩ 4,673,463	₩ 4,561,680

The Bank uses various derivative instruments for its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates.

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and bills discounted of merchant banking. The Bank recognized ₩7,852 million of gains on valuation of derivatives of securities and ₩12,328 million of losses on valuation of derivatives of debentures for the year ended December 31, 2008. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

The details of derivatives and the valuation of derivatives for the year ended December 31, 2007 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 374,033	₩ 340,957	₩ -	₩ -	₩ 374,033	₩ 340,957	₩ 377,619	₩ 376,020
Currency swaps	56,970	51,191	-	-	56,970	51,191	154,324	78,804
Currency options purchased	48,298	12,540	-	-	48,298	12,540	75,422	-
Currency options sold	21,417	36,603	-	-	21,417	36,603	-	94,368
	500,718	441,291	-	-	500,718	441,291	607,365	549,192
Interest:								
Interest rate swaps	146,813	212,897	9,569	3,452	156,382	216,349	178,190	233,678
	146,813	212,897	9,569	3,452	156,382	216,349	178,190	233,678
Index:								
Stock index purchased	-	1,363	-	-	-	1,363	1,015	-
Stock index sold	3,647	34	-	-	3,647	34	-	22,631
	3,647	1,397	-	-	3,647	1,397	1,015	22,631
	₩ 651,178	₩ 655,585	₩ 9,569	₩ 3,452	₩ 660,747	₩ 659,037	₩ 786,570	₩ 805,501

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and bills discounted of merchant banking. The Bank recognized ₩3,452 million of gains on valuation of derivatives of available-for-sale securities, and ₩276 million and ₩9,293 million of losses on valuation of derivatives of available-for-sale securities and finance debentures in foreign currencies, respectively, for the year ended December 31, 2007. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

( 2 ) The Bank holds written-off loans, of which the claim for borrowers and guarantors have not been terminated , amounting to ₩1,416,543 million and ₩1,167,728 million as of December 31, 2008 and 2007, respectively.

( 3 ) Endorsed notes with collateral amounted to ₩63,533 million and ₩62,165 million as of December 31, 2008 and 2007, respectively. Endorsed notes without collateral held at the merchant banking accounted amount to ₩9,450,454 million and ₩8,095,294 million as of December 31, 2008 and 2007, respectively.

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

- When it is considered impossible to collect the loans and interest due to delay in repayment of loans and interest over six months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation.

As of December 31, 2008, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩1,868 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 5 ) Loans sold to asset backed securitization (ABS) (Unit: In millions)

Classification	Date	Value of loans	Sale price	Subordinated debentures <sup>(*)</sup>
KEB 12 <sup>th</sup> Securitization Specialty Co., Ltd.	Nov. 14, 2005	₩ 178,587	₩ 136,000	₩ -
KEB 13 <sup>th</sup> Securitization Specialty Co., Ltd.	May 08, 2006	121,173	92,000	-
KEB 14 <sup>th</sup> Securitization Specialty Co., Ltd.	Nov. 10, 2006	92,087	74,000	-
KEB 15 <sup>th</sup> Securitization Specialty Co., Ltd.	Jun. 20, 2007	121,121	90,000	-
KEB 16 <sup>th</sup> Securitization Specialty Co., Ltd. <sup>(*)2</sup>	Jun. 24, 2008	105,206	77,000	22,128

(\*)1 The subordinated debentures are included in sale price.

(\*)2 The gains on disposal of loans have been recognized amounting to ₩3,219 million (see Note 8).

( 6 ) The Bank has pending litigation as plaintiff or defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩354,234 million (2,497 cases) and ₩83,081 million (120 cases), respectively, as of December 31, 2008. The Bank recognized ₩9,348 million of provisions related to these lawsuits (see Note 14).

In addition, Olympus Capital KEB Cards Ltd. and others ("the applicants") ask for arbitration of compensation of USD 300 million against the Bank and 5 companies related to Lone Star ("the Banks") through the Court of International Arbitration. The applicants argue that the Banks violated the obligation of shareholders' contract (on December 1, 1999) so the contract of shares transference (on November 20, 2003) is invalid. The result of the arbitration is presently unpredictable.

The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations.

## ( 7 ) Credit to work-out companies

As of December 31, 2008, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩1,251,567 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank.

## ( 8 ) Debt to equity swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including acceptances and guarantees) and available-for-sale securities convertible to equity securities with respect to Hynix Semiconductor Inc. ("Hynix") as of December 31, 2008 amounted to ₩390,683 million and ₩232,642 million, respectively. As of December 31, 2008, the Bank's loans for Hynix are classified as normal. Joint control procedure for Hynix Semiconductor Inc. was completed on July 12, 2005. Also, the Bank's 37,742 thousand shares of Hynix are restricted for sale until completion of M&A and the gain on valuation of available-for-sale securities amounting to ₩13,126 million is accounted as other comprehensive income as of December 31, 2008.

## ( 9 ) Debt to equity swap of Hyundai Engineering & Construction Co., Ltd.

As of December 31, 2008, the Bank has loans (including acceptances and guarantees) of ₩285,186 million and available-for-sale securities of ₩702,157 million with respect to Hyundai Engineering & Construction Co., Ltd. and the Bank's loans for Hyundai Engineering & Construction Co., Ltd. are classified as normal.

The Bank has 13,778 thousand shares of Hyundai Engineering & Construction Co., Ltd., which are restricted for sale until completion of M&A of Hyundai Engineering & Construction Co., Ltd. With regards to these securities, the gain on valuation of available-for-sale securities amounting to ₩450,018 million is accounted as other comprehensive income as of December 31, 2008.

## ( 10 ) Commitments related to credit card business

The Bank has entered into trademark license (membership) agreements with Master Card International Incorporated in 1993, VISA International Service Association in 1988 and JCB International Service Association in 1997. The Bank pays and receives certain amounts of fees and commissions in connection to the income and expense incurred pertaining to these agreements.

The Bank has entered into credit card affinity agreements with KDB Capital. Under the agreements, the Bank gives an allocation of the fee income related to the credit card affinities.

## ( 11 ) Indemnification obligations regarding the share subscription agreement by and between the Bank and the LSF-KEB Holdings, SCA

The Bank shall indemnify LSF-KEB Holdings, SCA for all purchaser losses <sup>(\*)1</sup> and pay for damages resulting from any breach by the Bank of any of the Bank's covenants <sup>(\*)2</sup> in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration of indemnification obligations are as follows:

- Purchaser losses, excluding those mentioned below, may be indemnified until 18 months from the Closing Date <sup>(\*)3</sup>.
- Purchaser losses arising as a result of fraud or intentional misrepresentation by the Bank may be indemnified at the Closing Date and continue to be in full force and effective until three years from the Closing Date.
- Purchaser losses related to tax matters may be indemnified at the Closing Date and continue to be in full force effective until five years from the Closing Date.

The Bank's indemnification obligations expire after the duration periods stated above. However, if the Bank receives written claims from Lone Star before the expiration of the durations, regardless of the durations stated above, the Bank's indemnification obligations continue to be in force and effective until the related matter are brought to satisfactory settlement.

The Bank has no indemnification obligation for claims less than ₩100 million. The Bank's indemnification obligation applies to claims

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

exceeding ₩15,000 million cumulative, and only losses exceeding ₩10,000 million may be indemnified.

The total amount of indemnification obligations cannot exceed the LSF-KEB Holdings, SCA's investments in the Bank.

(\*1) Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank's representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank's covenants or agreements in the Share Subscription Agreement.

(\*2) Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.

(\*3) Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.

## 18. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

Classification	2008		2007	
	USD equivalent (*)	Translation into Won	USD equivalent (*)	Translation into Won
Assets:				
Cash and due from bank:				
Foreign currencies	\$ 347,870	₩ 437,446	\$ 384,242	₩ 360,496
Due from banks in foreign currencies	3,454,362	4,343,860	1,730,165	1,623,241
Securities:				
Trading securities	38,039	47,834	39,686	37,233
Available-for-sale securities	991,087	1,246,292	1,022,510	959,319
Held-to-maturity securities	514,859	647,435	492,901	462,440
Securities using the equity method	5,089	6,399	4,516	4,236
Loans:				
Call loans	668,849	841,077	1,958,954	1,837,891
Domestic import usance bill	2,184,437	2,746,929	1,857,444	1,742,654
Credit card receivables	3,134	3,941	2,004	1,880
Bills bought in foreign currencies	3,562,606	4,479,977	3,757,320	3,525,118
Advances for customers	-	-	1	1
Bills bought in Won	38,771	48,755	97,949	91,896
Loans in foreign currencies	9,141,742	11,495,741	7,340,989	6,887,316
Factoring receivables	32,359	40,692	191,876	180,018
Private placed bonds	108,566	136,522	109,370	102,611
(Reserve for bad debts)	(78,143)	(98,265)	(67,444)	(63,276)
Liabilities:				
Deposits:				
Demand deposits in foreign currencies	4,069,438	5,117,318	4,052,749	3,802,290
Savings deposits in foreign currencies	7,181,260	9,030,434	6,817,849	6,396,506
Borrowings:				
Borrowings in foreign currencies	5,905,363	7,425,994	6,614,481	6,205,705
Call money in foreign currencies	2,118,760	2,664,341	868,542	814,866
Bonds in foreign currencies	869,438	1,093,318	960,474	901,116
Other liabilities:				
Accrued expenses in foreign currencies	165,774	208,461	361,310	338,981
Pension benefit	3,598	4,524	-	-
Asset under management of pension benefits	(2,326)	(2,925)	-	-

(\*) Foreign currencies other than U.S. Dollars were converted into U.S. Dollars at the basic rates of exchange at balance sheet dates.

## 19. Operating revenue and expenses

### ( 1 ) Gain and loss on trading and valuation of derivatives

Details of gain and loss on trading and valuation of derivatives for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Gain:		
Gain on trading of derivatives	₩ 9,352,223	₩ 1,951,079
Gain on valuation of derivatives	4,642,270	664,199
	₩ 13,994,493	₩ 2,615,278
Loss:		
Loss on trading of derivatives	₩ 9,140,323	₩ 1,936,910
Loss on valuation of derivatives	4,513,716	668,606
	₩ 13,654,039	₩ 2,605,516



# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## ( 2 ) Commission income and expenses

Details of commission income and expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Commission income:		
Commission received	₩ 535,493	₩ 557,241
Guarantee fees received	33,186	20,862
Other commission received	84	968
	₩ 568,763	₩ 579,071
Commission expenses:		
Commission paid	₩ 76,822	₩ 67,239
Other commission paid	171,145	155,195
	₩ 247,967	₩ 222,434

## ( 3 ) Dividend income

Details of dividend income for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions)

Classification	2008	2007
Dividend income from trading securities	₩ 4,391	₩ 3,458
Dividend income from available-for-sale securities	74,673	4,701
	₩ 79,064	₩ 8,159

## ( 4 ) Other operating revenue and expenses

Details of other operating revenue and expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Other operating revenue:		
Profit on operating trust account	₩ 24,308	₩ 21,985
Reversal of provision for unused credit limit	15,023	-
Reversal of provision for other liabilities	-	79,004
Others	2,300	2,584
	₩ 41,631	₩ 103,573
Other operating expenses:		
Fund contributions	₩ 144,254	₩ 128,293
Provision for allowance for acceptances and guarantees	2,215	14,737
Provision for unused credit limit	-	24,464
Provision for other liabilities	44,085	-
Others	1,117	1,371
	₩ 191,671	₩ 168,865

## ( 5 ) General and administrative expenses

General and administrative expenses for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
Salaries	₩ 541,452	₩ 528,241
Expenses for fringe benefits	153,171	137,550
Retirement allowances	48,514	58,137
Honorary retirement	3,534	2,547
Operating expense	198,885	193,218
Depreciation	98,024	107,305
Amortization	31,349	30,026
Taxes	48,538	38,597
Rental	78,879	51,926
Entertainment	13,525	12,277
Advertising	40,200	37,538
	₩ 1,256,071	₩ 1,197,362

## 20. Other interest income and expenses

Other interest income and expenses for the years ended December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Other interest income:		
Interest on domestic transaction	₩ 15,659	₩ 13,116
Miscellaneous interest revenues	15,860	8,178
Interest on cashier's check reimbursement	1,538	3,281
Others	1,436	9,637
	₩ 34,493	₩ 34,212
Other interest expenses:		
Interest paid on domestic transaction	₩ 5,527	₩ 3,661
Interest on borrowings from trust account	48,796	31,892
Others	169	297
	₩ 54,492	₩ 35,850

## 21. Non-operating income and expenses

Non-operating income and expenses for the years ended December 31, 2008 and 2007 consisted of (Unit: In millions):

Classification	2008	2007
Non-operating income:		
Gain on disposal of tangible assets	₩ 321	₩ 3,485
Rental income	2,569	2,243
Gain on securities using the equity method	3,909	694
Others	65,051	80,406
	₩ 71,850	₩ 86,828
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 2,020	₩ 5,448
Loss on securities using the equity method	143	109
Loss on revaluation of tangible assets	25,346	-
Others	58,655	30,902
	₩ 86,164	₩ 36,459

## 22. Income tax expense

### ( 1 ) Components of income tax expense

The components of income tax expense for the years ended December 31, 2008 and 2007 were summarized as follows (Unit: In millions):

Classification	2008	2007
Bank:		
Income tax currently payable	₩ 228,994	₩ 468,063
Change in deferred taxes due to temporary differences	(75,430)	62,623
Income tax directly applied to shareholders' equity	202,853	10,564
Income tax expense of overseas branch	28,455	14,394
Income tax expense	384,872	555,644
Subsidiaries:		
Income tax currently payable	32,066	21,194
Changes in deferred income tax assets	(18,483)	(1,414)
Income tax directly applied to shareholders' equity	(1,322)	44
Income tax expense	12,261	19,824
	₩ 397,133	₩ 575,468

## Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 2 ) Deferred income tax assets in the consolidated financial statements as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
KEBC	₩ 4,064	₩ 2,562
KEBOC	1,996	1,511
KEBA	2,185	3,934
KEBI	403	555
KEB NY FINCO	3,348	1,304
KEB LA FINCO	17,344	1,082
	₩ 29,340	₩ 10,948

( 3 ) Deferred income tax liabilities in the consolidated financial statements as of December 31, 2008 and 2007 were as follows (Unit: In millions):

Classification	2008	2007
KEB	₩ 89,522	₩ 176,823
KEBF	1,903	127
KEBA	-	1,867
	₩ 91,425	₩ 178,817

( 3 ) The statutory income tax rate applicable to the Bank and its subsidiaries, including resident tax surcharges, is 27.5 percent for the years ended December 31, 2008 and 2007, respectively. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2008 and 2007 are 33.66 percent and 37.45 percent, respectively.

### 23. Earnings per share

( 1 ) Basic net income per share

Basic income per share is calculated for common stock by dividing controlling company's net income available to common shareholders by the weighted average number of outstanding common stock. The basic net income per share for the years ended December 31, 2008 and 2007 was as follows (Unit: In Won):

Classification	2008	2007
Controlling company's net income	₩ 782,372,580,444	₩ 960,944,014,839
Weighted average number of common shares	644,906,826	644,906,826
Basic net income per share	₩ 1,213	₩ 1,490

Both the weighted average number of outstanding common stock and the number of outstanding common stock are the same because there is no change on the number of outstanding common stock for years ended December 31, 2008 and 2007.

( 2 ) Diluted net income per share

Diluted net income per share for the years ended December 31, 2008 and 2007 represent diluted controlling company's net income divided by the number of common shares and dilutive common shares. Since the Bank transferred stock option included in other accumulated comprehensive income to accrued expense as of December 31, 2008 and did not have dilutive common stocks, the basic net income per share and diluted net income per share were the same.

## 24. Segment information

( 1 ) Balance sheets per business segment as of December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

	Financial & insurance business	Consolidation adjustment	Total
Asset:			
Cash and due from banks	₩ 10,827,081	₩ (62,826)	₩ 10,764,255
Securities	14,477,568	(527,500)	13,950,068
Loans	70,313,006	(1,550,504)	68,762,502
Tangible assets	1,452,808	(2,228)	1,450,580
Other assets	12,400,304	(9,021)	12,391,283
	₩ 109,470,767	₩ (2,152,079)	₩ 107,318,688
Liability:			
Deposits	₩ 62,610,388	₩ (46,798)	₩ 62,563,590
Borrowings	25,030,348	(1,473,747)	23,556,601
Other liabilities	14,620,651	(105,984)	14,514,667
	102,261,387	(1,626,529)	100,634,858
Shareholders' equity:			
Common stock	3,460,125	(235,591)	3,224,534
Capital surplus	55,781	(54,841)	940
Capital adjustment	(4,425)	-	(4,425)
Accumulated other comprehensive income	753,554	(4,354)	749,200
Retained earnings	2,944,345	(232,581)	2,711,764
Minority interests	-	1,817	1,817
	7,209,380	(525,550)	6,683,830
	₩ 109,470,767	₩ (2,152,079)	₩ 107,318,688

<2007>

	Financial & insurance business	Consolidation adjustment	Total
Asset:			
Cash and due from banks	₩ 5,759,429	₩ (108,954)	₩ 5,650,475
Securities	12,571,770	(443,753)	12,128,017
Loans	58,289,464	(945,217)	57,344,247
Tangible assets	912,740	(2,851)	909,889
Other assets	10,112,659	(1,209,121)	8,903,538
	₩ 87,646,062	₩ (2,709,896)	₩ 84,936,166
Liability:			
Deposits	₩ 48,740,719	₩ (69,365)	₩ 48,671,354
Borrowings	19,028,425	(879,192)	18,149,233
Other liabilities	12,767,890	(1,323,224)	11,444,666
	80,537,034	(2,271,781)	78,265,253
Shareholders' equity:			
Common stock	3,446,222	(221,688)	3,224,534
Capital surplus	42,940	(42,000)	940
Capital adjustments	(5,722)	-	(5,722)
Accumulated other comprehensive income	1,102,731	(12,716)	1,090,015
Retained earnings	2,522,857	(163,199)	2,359,658
Minority interests	-	1,488	1,488
	7,109,028	(438,115)	6,670,913
	₩ 87,646,062	₩ (2,709,896)	₩ 84,936,166

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 2 ) Statements of income per business segment for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

<2008>

	Financial & insurance business	Consolidation adjustment	Total
Operating revenue	₩ 23,246,345	₩ (94,553)	₩ 23,151,792
Operating expenses	22,049,404	(91,641)	21,957,763
Operating income	1,196,941	(2,912)	1,194,029
Non-operating income	126,148	(54,298)	71,850
Non-operating expenses	118,078	(31,914)	86,164
Income before income Tax	1,205,011	(25,296)	1,179,715
Income tax expense	397,133	-	397,133
Net income	₩ 807,878	₩ (25,296)	₩ 782,582
Controlling company interests	₩ 807,878	(25,505)	₩ 782,373
Minority interests	-	209	209

<2007>

	Financial & insurance business	Consolidation adjustment	Total
Operating revenue	₩ 9,113,174	₩ (117,009)	₩ 8,996,165
Operating expenses	7,613,641	(103,718)	7,509,923
Operating income	1,499,533	(13,291)	1,486,242
Non-operating income	141,026	(54,198)	86,828
Non-operating expenses	50,011	(13,552)	36,459
Income before income Tax	1,590,548	(53,937)	1,536,611
Income tax expense	575,468	-	575,468
Net income	₩ 1,015,080	₩ (53,937)	₩ 961,143
Controlling company interests	₩ 1,015,080	₩ (54,135)	₩ 960,945
Minority interests	-	198	198

( 3 ) Financial information per business segment as of and for years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

	Banking	Trust account	Others	Consolidation adjustment	Total
Operating revenue	₩ 22,884,431	₩ 94,204	₩ 267,710	₩ (94,553)	₩ 23,151,792
Less: inter-company transaction	(88,492)	(1,512)	(4,549)	94,553	-
Net operating revenue	22,795,939	92,692	263,161	-	23,151,792
Operating income (loss)	₩ 1,206,268	₩ -	₩ (9,327)	₩ (2,912)	₩ 1,194,029
Cash and due from banks	₩ 10,380,398	₩ 313,039	₩ 133,644	₩ (62,826)	₩ 10,764,255
Securities	13,661,006	721,506	95,056	(527,500)	13,950,068
Loans	68,114,558	181,487	2,016,961	(1,550,504)	68,762,502
Tangible assets	1,431,302	-	21,506	(2,228)	1,450,580
Other assets	12,310,960	18,857	70,487	(9,021)	12,391,283
	₩ 105,898,224	₩ 1,234,889	₩ 2,337,654	₩ (2,152,079)	₩ 107,318,688

<2007>

	Banking	Trust account	Others	Consolidation adjustment	Total
Operating revenue	₩ 8,909,485	₩ 66,081	₩ 137,608	₩ (117,009)	₩ 8,996,165
Less: inter-company transaction	(108,555)	(2,407)	(6,047)	117,009	-
Net operating revenue	8,800,930	63,674	131,561	-	8,996,165
Operating income	₩ 1,457,065	₩ 10,833	₩ 31,635	₩ (13,291)	₩ 1,486,242
Cash and due from banks	₩ 5,405,380	₩ 187,969	₩ 166,080	₩ (108,954)	₩ 5,650,475
Securities	11,832,386	665,102	74,282	(443,753)	12,128,017
Loans	56,596,566	265,019	1,427,879	(945,217)	57,344,247
Tangible assets	878,800	-	33,940	(2,851)	909,889
Other assets	10,070,582	7,975	34,102	(1,209,121)	8,903,538
	₩ 84,783,714	₩ 1,126,065	₩ 1,736,283	₩ (2,709,896)	₩ 84,936,166

# Notes to Consolidated Financial Statements

179

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

( 4 ) Financial information per geographical area as of and for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

<2008>

	Domestic	Overseas	Consolidation adjustment	Total
Operating revenue	₩ 23,007,434	₩ 238,911	₩ (94,553)	₩ 23,151,792
Less: inter-company transaction	(82,040)	(12,513)	94,553	-
Net operating revenue	22,925,394	226,398	-	23,151,792
Operating income	₩ 1,181,127	₩ 15,814	₩ (2,912)	₩ 1,194,029
Cash and due from banks	₩ 10,550,813	₩ 276,268	₩ (62,826)	₩ 10,764,255
Securities	14,335,792	141,776	(527,500)	13,950,068
Loans	67,415,048	2,897,958	(1,550,504)	68,762,502
Tangible assets	1,446,887	5,921	(2,228)	1,450,580
Other assets	12,334,031	66,273	(9,021)	12,391,283
	₩ 106,082,571	₩ 3,388,196	₩ (2,152,079)	₩ 107,318,688

<2007>

	Domestic	Overseas	Consolidation adjustment	Total
Operating revenue	₩ 8,947,367	₩ 165,807	₩ (117,009)	₩ 8,996,165
Less: inter-company transaction	(106,345)	(10,664)	117,009	-
Net operating revenue	8,841,022	155,143	-	8,996,165
Operating income	₩ 1,443,182	₩ 56,351	₩ (13,291)	₩ 1,486,242
Cash and due from banks	₩ 5,395,448	₩ 363,981	₩ (108,954)	₩ 5,650,475
Securities	12,519,999	51,771	(443,753)	12,128,017
Loans	56,367,494	1,921,970	(945,217)	57,344,247
Tangible assets	909,651	3,089	(2,851)	909,889
Other assets	10,081,291	31,368	(1,209,121)	8,903,538
	₩ 85,273,883	₩ 2,372,179	₩ (2,709,896)	₩ 84,936,166

## 25. Significant transactions between the bank and subsidiaries

( 1 ) Significant balances made in the normal course of business with subsidiaries as of December 31, 2008 and 2007 are summarized as follows (Unit: In millions):

<2008>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 3,588	₩ 1,341	₩ 17,138	₩ 16,545	₩ 388	₩ -	₩ -	₩ 39,000
Loans in Won	169,300	-	-	-	-	-	-	-	169,300
Loans in foreign currencies (*)	40,125	-	-	274,546	65,331	25,150	-	650,142	1,055,294
Allowance for possible loan losses	(1,780)	-	-	-	-	-	-	-	(1,780)
Other assets	207	2	-	3,172	694	685	-	4,020	8,780
	₩ 207,852	₩ 3,590	₩ 1,341	₩ 294,856	₩ 82,570	₩ 26,223	₩ -	₩ 654,162	₩ 1,270,594
Liabilities:									
Deposits in Won	₩ 153	₩ 33	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 186
Deposits in foreign currencies	51	4,494	4,483	4	12,945	330	-	955	23,262
Borrowings in foreign currencies	-	-	12,647	17,663	108,904	98,085	-	11,855	249,154
Other liabilities	3,894	344	-	798	910	999	79,151	176	286,272
	₩ 4,098	₩ 4,871	₩ 17,130	₩ 18,465	₩ 122,759	₩ 99,414	₩ 79,151	₩ 12,986	₩ 358,874

(\*) Call loans in foreign currencies are included.

# Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

## <2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 1,322	₩ 2,777	₩ 2,818	₩ 57,265	₩ 284	₩ -	₩ -	₩ 64,466
Loans in Won	51,300	-	-	-	-	-	-	-	51,300
Loans in foreign currencies (*)	33,472	-	-	249,484	60,489	13,419	-	330,146	689,010
Allowance for possible loan losses	(1,111)	(340)	-	-	-	-	-	-	(1,451)
Other assets	139	1	-	624	830	7	-	3,475	5,076
	₩ 83,800	₩ 983	₩ 2,777	₩ 252,926	₩ 118,584	₩ 13,710	₩ -	₩ 333,621	₩ 806,401
Liabilities:									
Deposits in Won	₩ 145	₩ 35	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 180
Deposits in foreign currencies	-	3,562	-	-	889	455	-	1,245	6,151
Borrowings in foreign currencies	-	-	-	59,867	54,926	9,384	-	13,262	137,439
Other liabilities	3,345	342	-	-	618	64	108,751	377	113,497
	₩ 3,490	₩ 3,939	₩ -	₩ 59,867	₩ 56,433	₩ 9,903	₩ 108,751	₩ 14,884	₩ 257,267

(\*) Call loans in foreign currencies are included.

( 2 ) Significant transactions with subsidiaries for the years ended December 31, 2008 and 2007 were as follows (Unit: In millions):

## <2008>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 7,805	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,805
Interest revenues in foreign currencies	2,240	4	15	12,384	3,773	512	-	23,287	42,215
Commission income in Won	-	169	-	-	-	-	-	-	169
Commission income in foreign currencies	-	-	35	418	4,172	-	-	-	4,590
Other revenue	11,809	-	-	2,448	-	-	10,992	-	25,284
	₩ 21,854	₩ 173	₩ 50	₩ 15,250	₩ 7,945	₩ 512	₩ 10,992	₩ 23,287	₩ 80,063
Expenses:									
Interest expenses in Won	₩ -	₩ 48	₩ -	₩ -	₩ -	₩ -	₩ 1,512	₩ -	₩ 1,560
Interest expenses in foreign currencies	58	114	105	2,065	7,865	641	-	606	11,454
Commission expense in Won	-	564	-	-	-	-	-	-	564
Commission expense in foreign currencies	-	160	-	-	915	-	-	-	1,075
Written-off of bad debts	1,060	-	-	-	-	-	-	-	1,060
Other expenses	697	-	-	287	-	-	-	-	984
	₩ 1,815	₩ 886	₩ 105	₩ 2,352	₩ 8,780	₩ 641	₩ 1,512	₩ 606	₩ 16,697



KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

<2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 5,954	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 5,954
Interest revenues in foreign currencies	1,912	-	7	8,580	3,682	1,377	-	16,971	32,529
Commission income in Won	-	175	-	-	-	-	2	-	177
Commission income in foreign currencies	-	-	36	-	2,718	-	-	26	2,780
Other revenue	1,023	-	-	-	-	-	10,833	535	12,391
	₩ 8,889	₩ 175	₩ 43	₩ 8,580	₩ 6,400	₩ 1,377	₩ 10,835	₩ 17,532	₩ 53,831
Expenses:									
Interest expenses in Won	₩ 101	₩ 1	₩ -	₩ -	₩ -	₩ -	₩ 2,407	₩ -	₩ 2,509
Interest expenses in foreign currencies	-	116	65	1,495	5,045	979	-	1,244	8,944
Commission expense in Won	-	569	-	-	-	-	-	-	569
Commission expense in foreign currencies	-	100	-	-	101	-	-	-	201
Written-off of bad debts	305	-	-	-	-	(16)	-	-	289
Other expenses	1,262	36	-	-	-	60	-	581	1,939
	₩ 1,668	₩ 822	₩ 65	₩ 1,495	₩ 5,146	₩ 1,023	₩ 2,407	₩ 1,825	₩ 14,451

( 3 ) Details of significant receivables and payables among subsidiaries as of December 31, 2008 were as follows (Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty	Classification	Amount
KEBF	Due from Retirement Insurance	₩ 757	Trust	Time deposits in Won	₩ 757
KEBF	Due from Retirement Insurance	41	Trust	Accrued expenses	41
KEBC	Due from Retirement Insurance	354	Trust	Time deposits in Won	354
KEBC	Due from Retirement Insurance	7	Trust	Accrued expenses	7
KEBI	Due from banks in foreign currencies	244	KEBDAG	Demand deposits in foreign currencies	244
KEBDAG	Due from banks in foreign currencies	144	KEBOC	Demand deposits in foreign currencies	144

( 4 ) Details of significant transactions among subsidiaries for the year ended December 31, 2008 were as follows (Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty	Classification	Amount
KEBOC	Interest on call loan in foreign currency	₩ 14	KEBNYFinco	Commission Income in foreign currency	₩ 14
KEBF	Interest on deposits in Won	19	Trust	Interest on due from banks in Won	19
KEBC	Interest on deposits in Won	18	Trust	Interest on due from banks in Won	18

( 5 ) Guarantees and acceptances with subsidiaries as of December 31, 2008 were as follows (Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty
BANK	Guarantees and acceptances in Won	₩ 40,000	KEBF
BANK	Guarantees and acceptances in foreign currency	8,803	KEBC
BANK	L/C opening relationship	4,141	KEBC
KEBA	Guarantees and acceptances in foreign currency	4,013	BANK
KEBLAF	Guarantees and acceptances in foreign currency	4,006	BANK

( 6 ) The key management compensations for the year ended December 31, 2008 were as follows (Unit: In millions):

Classification	Compensations
Short-term employee benefits	₩ 7,055
Employee benefits after resignation	480
Stock option	(6,212)
	₩ 1,323

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

## Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2008 and 2007

### 26. Computation of value added

Accounts required for computation of value added for the years ended December 31, 2008 and 2007 consisted of the following (Unit: In millions):

Accounts	2008	2007
Salaries	₩ 541,452	₩ 528,241
Retirement allowances	48,514	58,137
Expenses for fringe benefit	153,171	137,550
Rent	78,878	51,926
Depreciation	98,024	107,305
Amortization	31,349	30,026
Taxes and dues	48,538	38,597
	₩ 999,926	₩ 951,782

### 27. Dividends

( 1 ) The calculation of dividends for the years ended December 31, 2008 and 2007 was as follows (Unit: shares, In millions except per share amounts):

Classification	2008	2007
Dividends per share (rate) (In currency units)	₩ 125 (2.5%)	₩ 700 (14%)
Shares issued	644,906,826	644,906,826
Dividends	₩ 80,613	₩ 451,435

( 2 ) The calculation of dividend payout ratio for the years ended December 31, 2008 and 2007 was as follows (Unit: In millions):

Classification	2008	2007
Dividends	₩ 80,613	₩ 451,435
Net income	782,618	960,945
Dividend payout ratio (%)	10.30	46.98

( 3 ) The calculation of dividend yield for the years ended December 31, 2008 and 2007 was as follows (Unit: In currency units):

Classification	2008	2007
Dividends	₩ 125	₩ 700
Closing price	6,330	14,500
Dividend yield ratio (%)	1.97	4.83

## 28. Cash flows

( 1 ) Cash in statements of cash flows consists of cash, due from bank (excluding restricted due from bank), receivables and preferred stock with 3 months or less of maturity and securities under agreement to repurchase with 3 months or less of maturity. Cash flows from operating activities are presented by the indirect method.

In addition, the Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities.

( 2 ) The cash and due from banks in the statements of cash flows for the years ended December 31, 2008 and 2007 were as follows (Unit : In millions)

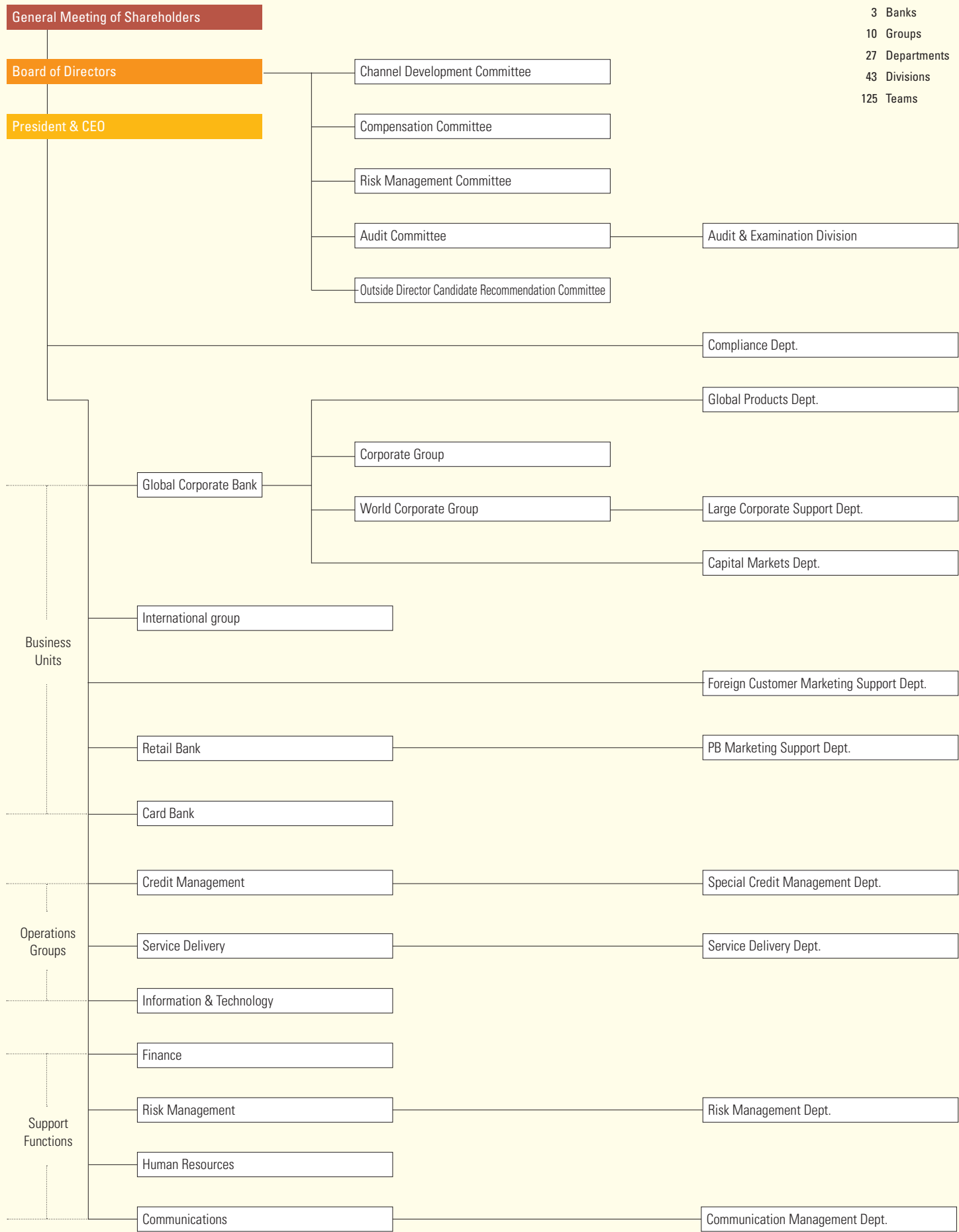
Classification	2008	2007
Cash and due from banks	₩ 10,764,255	₩ 5,650,475
Add: securities	-	458,169
	10,764,255	6,108,644
Less: restricted due from bank	(6,814,198)	(1,891,856)
	₩ 3,950,057	₩ 4,216,788

( 3 ) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2008 and 2007 were as follows (Unit : In millions):

Classification	2008	2007
Decrease of loans from write-offs of loans	₩ 597,106	₩ 355,998
Decrease of gain on valuation of available-for-sale securities	776,196	29,307
Change on unsettled spot transactions	881,988	5,439,166
Transferring of accrued expenses in stock option	-	17,780

# Organization Chart

February 4, 2009



As of March 31, 2009

## Board of Directors



### Standing Directors

-

Richard F. Wacker	Chairman
Larry A. Klane	President & CEO
Jang, Myoung-Kee	Deputy President

### Outside Directors

-

Ellis Short	Ex-Vice President, Lone Star
Michael D. Thomson	General Counsel, Lone Star
Paul Yoo	President, Lone Star Advisors Korea
Larry S. Owen	Ex-Managing Director, Stanford Management Company
Park, Chin-Keun	Ex-Dean of Department of Business and Economics, Yonsei University
Kim, Joung-Soo	Ex-Director of Economic Research at JoongAng Daily
Lee, Jae-Duk	Ex-Deputy Governor, Bank of Korea
Kim, Jin-Ho	Ex-Deputy President, Export - Import Bank of Korea

## Managing Directors



Lee, Jong-Kyu	Auditor
Suh, Choong-Suk	Senior Managing Director, CRO
Yun, Jong-Ho	Senior Managing Director, Global Corporate Bank/World Corporate Group
Kim, Gwi-Hyun	Senior Managing Director, Retail Bank
Jhun, Joong-Gyu	Managing Director, Special Credit Mgmt. Dept.
Alexander S. Kim	Managing Director, Service Delivery Dept.
Kwon, Moo-Kyung	Managing Director, Corporate Group
Lee, Sang-Don	Managing Director, Capital Markets Dept.
Jang, Chan-Woong	Managing Director, Information&Technology
Park, Jae-Hong	Managing Director, PB Marketing Support Dept.
Chang, Kab-Soon	Managing Director, Human Resources
Kim, Jee-Won	Managing Director, CFO
Chung, Soo-Cheon	Managing Director, Card Bank

**Financial Institutions Division**

•

**Global Head of Financial Institutions**  
Chung, Chung-Won  
Tel : 82-2-729-0432 Fax : 82-2-775-2565

**Western Europe, Africa, Clearing Services, CLS**  
Senior Area Manager : Kim, Chi-Ok  
Tel : 82-2-729-0457 Fax : 82-2-775-2565

**North America, China, Hong Kong, Taiwan**  
Senior Area Manager : Chang, Suk-Ho  
Tel : 82-2-729-0464 Fax : 82-2-775-2565

**Middle East, Eastern Europe, Russia, CIS - FI London Desk**  
Senior Area Manager : Choi, Sung-Ho  
E-mail : csh3193@keb.co.kr

**Middle East, Eastern Europe, Russia, CIS, South America, Asia (excl. China, Hong Kong, Taiwan, Japan, Singapore) - FI Korean Desk**  
Area Manager : Joh, Nam-Gyong  
Tel : 82-2-729-0465 Fax : 82-2-775-2565

**Germany, Oceania, Japan, Singapore**  
Senior Area Manager : Choi, Sui  
Tel : 82-2-729-0448 Fax : 82-2-775-2565

**Korean Banks**  
Senior Area Manager : Kim, Jong-Wook  
Tel : 82-2-729-8916 Fax : 82-2-775-2565

**Treasury Division**

•

**General Manager**  
Lee, Hyung-Soo  
Tel : 82-2-729-0531

**Medium & Long-Term Financing**  
**Head of Foreign Currency Treasury Team**  
Park, Jun-Sik  
Tel : 82-2-729-0365

**Senior Manager**  
Kim, Beom-Rae  
Tel : 82-2-729-0520

**Foreign Customer Division**

•

**Foreign Customer Marketing Team**  
**Team Head**  
Cho, Jin-Je  
Tel : 82-2-729-0533

**USA**  
RM  
Lee, Sun-Ki  
Tel : 82-2-729-0288

**Asia**  
RM  
Cho, Bang-Hwan  
Tel : 82-2-3671-1882

**Europe**  
RM  
Chang, Tae-Yung  
Tel : 82-2-729-0304

**FDI Consulting Desk**  
FDI Marketer  
Lee, Jong-Woo  
Tel : 82-2-3671-1846

**FDI Consultant**  
Shon, Suk-Yeong  
Tel : 82-2-729-0281

**FDI Consultant**  
Yoo, Sin-Young  
Tel : 82-2-729-0285

**Investment Banking Division**

•

**Head of Investment Banking Division**  
Cho, In-Gyun  
Tel : 82-2-729-0557

**[P/F, S/F]**  
**Head of Project/Structured Finance Team**  
Cho, Yong-Woo  
Tel : 82-2-729-0542

**Project Finance**  
**Chief Manager of Project Finance Team**  
Jeong, Jong-Min  
Tel : 82-2-729-0943

**Structured Finance**  
**Chief Manager of Structured Finance Team**  
Lee, Hoa-Sun  
Tel : 82-2-729-0547

**[C/F, SOC, R/E]**  
**Head of Corporate Finance/SOC/ Real Estate Team**  
Lee, Jae-Hak  
Tel : 82-2-729-0292

**Corporate Finance**  
**Chief Manager of Corporate Finance Team**  
Kim, Jae-Ho  
Tel : 82-2-729-8882

**SOC**  
**Chief Manager of SOC Team**  
Park, Seong-Soo  
Tel : 82-2-729-8436

**Real Estate**  
**Chief Manager of Real Estate Team**  
Choi, Yun-Hyun  
Tel : 82-2-729-0546

**FX Trading**

•

**Head of FX Dealing Team**  
Lee, Sang-Bae  
Tel : 82-2-729-0472

**Chief Dealer**  
Lee, Hang-Joon  
Tel : 82-2-729-0159

**Chief Dealer**  
Kim, Doo-Hyeon  
Tel : 82-2-729-0507

**Chief Dealer**  
Yun, Jeong-A  
Tel : 82-2-729-0483

As of March 31, 2009

## Branches & Representative Offices



### AMERICAS

- Panama Branch  
General Manager : Lim, Young-No  
Calle 50, Urbanizacion Obarrio Edificio Torre Global Bank No. 19, Oficina No. 1902  
Panama, Republica de Panama.  
Tel : 507-340-3360 Fax : 507-340-3359
- Santiago Representative Office  
General Manager : Lee, Jae-Sung  
Av. Nueva Tajamar 481, Office 304, Torre Norte, WTC, Las Condes, Santiago, Chile  
Tel : 56-2-246-9105 Fax : 56-2-946-0171

### EUROPE

- London Branch  
General Manager : Kim, Dae-Hwan  
30 Old Jewry, London EC2R 8EB, U.K  
Tel : 44-20-7606-0191 Fax : 44-20-7606-9968
- Paris Branch  
General Manager : Lee, Dong-Seob  
17-19 Avenue Montaigne, 75008 P aris, France  
Tel : 33-1-5367-1200 Fax : 33-1-5367-1234
- Amsterdam Branch  
General Manager : Min, Seung-Ki  
Dr.Willem Dreesweg 2, 1185VB, Amstelveen, The Netherlands  
Tel : 31-20-546-9377 Fax : 31-20-546-9399
- Moscow Representative Office  
General Manager : Han, Sang-Gwa  
World Trade Center, Ent.3, Office Building 1308A,  
Krasnopresnenskaya nab.12, Moscow 123610, Russia  
Tel : 7-495-258-2405 Fax : 7-495-258-2407

### MIDDLE EAST ASIA

- Bahrain Branch  
General Manager : Woo, Gi-Hyun  
5th Floor, Yateem Center Bldg., P.O. Box 5767, Manama, Bahrain  
Tel : 973-17-229333 Fax : 973-17-225327
- Dubai Representative Office  
Chief Representative : Choi, Min-Gyu  
Office No. 202 (BlockA) Concorde Complex Bldg.,Plot  
125-130, P.O.Box 14535, Dubai, U.A.E  
Tel : 971-4-2281133 Fax : 971-4-2281132
- New Deli Representative Office  
General Manager : Lee, Yong-Hyo  
Flat No. 511, Ansal Bhawan, 16 Kasturba Gandhi Marg, New Delhi 110001, India  
Tel : 91-11-4354-8960 Fax : 91-11-4354-8964

### SOUTHEAST ASIA

- Singapore Branch  
General Manager : Moon, Seung-Chan  
30 Cecil St., #24-03, 08 Prudential Tower Singapore 049712  
Tel : 65-6536-1633 Fax : 65-6538-2522
- Manila Branch  
General Manager : Jeon, Jong-Bai  
33rd Floor, Citi Bank Tower 8741 Paseo de Roxas  
St. Makati City Metro Manila, Philippines  
Tel : 63-2-848-1988 Fax : 63-2-848-1776
- Hanoi Branch  
General Manager : Lee, Don-Keun  
14th Floor, Daeha Business Center 360 Kim Ma St., Ba Dinh Dist., Hanoi, Vietnam  
Tel : 84-4-771-6800 Fax : 84-4-771-6784

- Ho Chi Minh City Representative Office  
Chief Representative : Jeong, Han-Kyu  
Unit 502, 5th Floor, Diamond Plaza, 34 Le Duan St. Dist.1, Ho Chi Minh City, Vietnam  
Tel : 84-8-827-4273 Fax : 84-8-827-4281

### CHINA

- Hong Kong Branch  
General Manager : Shin, Hyun-Seung  
Branch 32FL., Far East Finance Centre, 16 Harcourt Road, Hong Kong, China  
Tel : 852-2520-1221 Fax : 852-2861-2379
  - **Kowloon (Hong Kong Sub Branch)**  
General Manager : Shin, Hyun-Seung  
Room 803, Energy Plaza Bldg., 92 Grandville Road, Tsim, Sha Tsui, East Kowloon, Hong Kong, China  
Tel : 852-2369-2131 Fax : 852-2311-0390
- Beijing Branch  
General Manager : Lee, Byung-Seok  
#510, Henderson Center, Office Tower 2, 18 Jianguomennei Avenue, Beijing 100005, China  
Tel : 86-10-6518-3101 Fax : 86-10-6518-3106
  - **Wangjing(Beijing Sub Branch)**  
General Manager : Lee, Byung-Seok  
Room A212-213 Wangjing International Business Center, No. 9 Wangjing ST. Chaoyang District, Beijing 100102, China.
  - **Wudaokou (Beijing Sub Branch)**  
General Manager : Lee, Bum-Hwan  
U-center C #101, 28 Chengfulu Road. Haidian District, Beijing 100083, China  
Tel : 86-10-6266-6710-14 Fax : 86-10-6266-6715
- Tianjin Branch  
General Manager : Lee, Kwang-Hyun  
1st Floor, Huaqiao Building No.92-1 Nanjing Road, Heping District, Tianjin 300042, China  
Tel : 86-22-2319-2595/7 Fax : 86-22-2319-2594
  - **Binhai (Tianjin Sub Branch)**  
General Manager : Lee, Kwang-Hyun  
No. E-7B-108, Binhai Financial Service Zone, No.20 Guangchang dong Road, TEDA, Tianjin, China 300457  
Tel : 86-22-5981-1155
- Dalian Branch  
General Manager : Han, Sa-Kwon  
25th Fl., World Trade Center, No. 25 Tongxing Road, Zhongshan District, Dalian, China  
Tel : 86-411-8253-1988 Fax : 86-411-8281-6150
- Shanghai Branch  
General Manager : Jeong, Sang-Hyeon  
17f Pufa Tower, No 588 Pudong South Road, pudong New District, Shanghai 200120. China  
Tel : 86-21-5882-5998 Fax : 86-21-5882-8743

### JAPAN

- Tokyo Branch  
General Manager : Joo, Jae-Jung  
The Shin Kokusai Bldg., 4-1, Marunouchi, 3-Chome, Chiyoda-ku, Tokyo, Japan  
Tel : 81-3-3216-3561 Fax : 81-3-3214-4491
  - **Shinjuku(Tokyo Sub Branch)**  
General Manager : Joo, Jae-Jung  
Asuka Shinyoukumiai Honbu B/D 2F 32-9, Kabuki-cho, 2-Chome, Shinjuku-ku, Tokyo, Japan  
Tel : 81-3-3208-5211 Fax : 81-3-3208-5260
- Osaka Branch  
General Manager : Han, Yong-Gab  
Yodoyabashi Mitsui Bldg., 1-1, Imabashi 4Chome, Chuoku, Osaka, Japan  
Tel : 81-06-6201-2600 Fax : 81-06-6201-2616



As of March 31, 2009

**Subsidiaries**

- KEB NY Financial Corp.  
 Preasident : Min, Young-Soo  
 460 Park Ave. 14th Floor, New York, N.Y.10022 U.S.A  
 Tel : 1-212-838-4949 Fax : 1-212-371-5290
  
- KEB USA International Corp.  
 President : Yang, Jin-Young  
 460 Park Ave. 15th Floor, New York, N.Y.10022 U.S.A.  
 Tel : 1-212-838-4949 Fax : 1-212-752-8551
  
- KEB LA Financial Corp.  
 President : Hwang, Hyo-Sang  
 777 South Figueroa Street, Suite 3000, Los Angeles, CA.90017 U.S.  
 Tel : 1-213-683-0830 Fax : 1-213-622-5378
  
- Korea Exchange Bank of Canada (H.O.)  
 President : Kang, Tae-Jong  
 Madison Centre Suite 1101, 4950 Yonge St. Toronto Ontario M2N 6K1, Canada  
 Tel : 1-416-222-5200 Fax : 1-416-222-5822
  
- KEB Australia Ltd.  
 Managing Director : Park, Seung-Kil  
 Suite 902, Level 9, Chifley Tower, 2 Chifley Square,  
 Sydney NSW 2000 AUSTRALIA. (P.O Box N595 Grosvenor Pl. Nsw 1220 Australia)  
 Tel : 61-2-9251-3355 Fax : 61-2-9251-3853
  
- Korea Exchange Bank (Deutschland) A.G.  
 Managing Director : Lee, Jae-Cheol  
 Bockenheimer Landstrasse 51-53, 60325 Frankfurt/M Germany  
 Tel : 49-69-7129-0 Fax : 49-69-7129-122
  
- PT Bank KEB Indonesia  
 Managing Director : Cho, Chong-Soo  
 Wisma GKBI 20th Fl., Suite 2002 Jalan Jenderal  
 Sudirman No.28 P.O. Box 2317 Jakarta 10210 Indonesia  
 Tel : 6221-574-1030 Fax : 6221-574-1031
  
- Banco KEB do Brasil S.A.  
 President : Lee, Seong-Cheon  
 Av.Doutor Chucri Zaidan 940, Torre II,18 Andar,CEP 04583-110, Cordeiro, Sao Paulo, SP, Brasil  
 Tel : 55-11-5188-1122 Fax : 55-11-5188-1120

# Domestic Network

As of March 31, 2009

<b>Head Office</b> <ul style="list-style-type: none"><li></li></ul>	181, Euljiro 2-ga, Jung-gu, C.P.O.Box 2924, Seoul 100-793, Korea Tel : 82-1544-3000 Tlx : K23141
<b>Branches</b> <ul style="list-style-type: none"><li></li></ul>	355
<b>Subsidiaries</b> <ul style="list-style-type: none"><li></li></ul>	<p><b>KEB Capital Inc.</b> 10F Hanwi Building, 70 Da-dong, Jung-gu, Seoul 100-180, Korea Tel : 82-2-3708-2100 Fax : 82-2-756-5269</p> <p><b>KEB Futures Co.,Ltd.</b> 11F Yuhwa Building, 23-7 Youido-dong, Youngdungpo-gu, Seoul 150-738, Korea Tel : 82-2-3770-4100 Fax : 82-2-3770-4147</p> <p><b>KEB Investor Services Co.,Ltd.</b> 23F KEB Head Office, 181 Euljiro 2-ga, Jung-gu, Seoul 100-793, Korea Tel : 82-2-729-0447 Fax: 82-2-777-5311</p>

