

KOOKMIN BANK  
Form 6-K  
March 14, 2007

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form 6-K

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**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of March 2007

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## Kookmin Bank

(Translation of registrant's name into English)

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9-1, 2-Ga, Namdaemun-Ro, Jung-Gu, Seoul, Korea 100-703

(Address of principal executive office)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

*Note:* Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

*Note:* Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the

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registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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**Non-Consolidated Audit Report and Consolidated Operating Results for the Fiscal year 2006**

On March 14, 2007, Kookmin Bank received the audit report for the fiscal year 2006 from its independent auditor, which includes non-consolidated financial statements for the years ended December 31, 2006 and 2005 and the related notes to those statements.

On March 14, 2007, Kookmin Bank disclosed its summary of consolidated operating results prepared in accordance with Korean GAAP for the fiscal year 2006.

Kookmin Bank plans to issue *Kookmin Bank and Its Subsidiaries Consolidated Audit Report* with full financial statements and the related notes in English as of and for the years ended 2006 and 2005 by no later than the end of March 2007.

Exhibit 99.1\_ Non-Consolidated Audit Report for FY 2006

Exhibit 99.2\_Consolidated Operating Results for FY 2006

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kookmin Bank  
(Registrant)

Date: March 14, 2007

By: /s/ Kap Shin  
(Signature)  
Name: Kap Shin  
Title: CFO / Senior EVP  
Executive Director

KOOKMIN BANK

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 AND INDEPENDENT AUDITORS' REPORT

**Independent Auditors' Report**

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of Kookmin Bank:

We have audited the accompanying non-consolidated balance sheets of Kookmin Bank (the Bank) as of December 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2006 and 2005, and the results of its operations, the changes in its retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and audit standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations 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 audit standards and their application in practice.

March 2, 2007

Notice to Readers

This report is effective as of March 2, 2007, 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.

## KOOKMIN BANK

## NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

	2006	Korean Won (In millions)	2005
<b>ASSETS</b>			
Cash and due from banks (Notes 3, 20 and 21)	(Won) 6,568,306		(Won) 5,867,417
Securities (Notes 4, 20 and 21)	29,382,480		30,550,299
Loans (Notes 5, 6, 7, 20 and 21)	149,867,182		135,738,407
Fixed assets (Note 8)	2,509,374		2,436,702
Other assets (Note 9)	6,879,139		5,000,824
	(Won) 195,206,481		(Won) 179,593,649
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits (Notes 10, 20 and 21)	(Won) 130,019,916		(Won) 126,281,232
Borrowings (Notes 11, 20 and 21)	14,060,178		13,737,336
Debentures (Notes 12, 20 and 21)	24,982,506		16,547,987
Other liabilities (Notes 13, 14, 15 and 16)	11,088,924		10,653,494
	180,151,524		167,220,049
<b>SHAREHOLDERS EQUITY (Notes 17 and 18):</b>			
Common stock	1,681,896		1,681,896
Capital surplus	6,258,297		6,254,786
Retained earnings			
(Net income of (Won)2,472,111 million for the year ended December 31, 2006 and (Won)2,252,218 million for the year ended December 31, 2005)	6,215,222		3,929,948
Capital adjustments	899,542		506,970
	15,054,957		12,373,600
	(Won) 195,206,481		(Won) 179,593,649

See accompanying notes to non-consolidated financial statements.

## KOOKMIN BANK

## NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won	
	2006	2005
	(In millions except per share amounts)	
<b>OPERATING REVENUE:</b>		
Interest income:		
Interest on due from banks (Note 21)	(Won) 27,973	(Won) 26,274
Interest on securities (Note 21)	1,350,319	1,127,393
Interest on loans (Note 21)	10,652,569	10,101,036
Other interest income	32,026	28,258
	12,062,887	11,282,961
Commission income	1,341,814	1,177,697
Other operating income:		
Gain on disposal of trading securities	53,231	93,736
Gain on valuation of trading securities (Note 4)	6,922	
Dividends on trading securities	2,858	4,869
Dividends on available-for-sale securities	4,634	3,281
Foreign exchange trading income	245,068	254,101
Fees and commissions from trust accounts (Note 26)	97,141	137,666
Gain on financial derivatives trading	4,419,007	3,652,414
Gain on valuation of financial derivatives (Note 19)	935,487	1,152,891
Gain on valuation of fair value hedged items (Notes 10, 12 and 19)	35,828	56,144
Other operating income	103,727	39,498
	5,903,903	5,394,600
<b>Total operating revenues</b>	<b>19,308,604</b>	<b>17,855,258</b>
<b>OPERATING EXPENSES:</b>		
Interest expenses:		
Interest on deposits (Note 21)	3,433,480	3,209,746
Interest on borrowings (Note 21)	656,936	384,332
Interest on debentures (Note 21)	1,139,073	1,034,471
Other interest expenses	54,991	35,026
	5,284,480	4,663,575
Commission expenses	464,400	352,546
Other operating expenses:		
Loss on disposal of trading securities	48,085	79,525
Loss on valuation of trading securities (Note 4)		14,550
Provision for possible loan losses (Note 7)	1,009,498	1,053,088
Provision for acceptances and guarantees losses	8,931	9,008
Foreign exchange trading losses	295,881	237,323
Loss on financial derivatives trading (Note 19)	4,080,808	3,575,745



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Loss on valuation of financial derivatives (Note 19)	1,015,821	1,097,056
Loss on valuation of fair value hedged items(Notes 10, 12 and 19)	31,517	1,336
Other operating expenses	785,354	779,922
	7,275,895	6,847,553
General and administrative expenses (Note 22)	3,212,114	2,975,762
Total operating expenses	16,236,889	14,839,436

(Continued)

## KOOKMIN BANK

## NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won	
	2006	2005
	(In millions except per share amounts)	
OPERATING INCOME	(Won) 3,071,715	(Won) 3,015,822
NON-OPERATING INCOME (Note 23)	689,085	734,695
NON-OPERATING EXPENSES (Note 23)	336,714	522,264
ORDINARY INCOME	3,424,086	3,228,253
EXTRA ORDINARY ITEM		
INCOME BEFORE INCOME TAX	3,424,086	3,228,253
INCOME TAX EXPENSE (Note 24)	951,975	976,035
NET INCOME	(Won) 2,472,111	(Won) 2,252,218
ORDINARY INCOME PER SHARE (In currency units) (Note 25)	(Won) 7,349	(Won) 6,977
NET INCOME PER SHARE (In currency units) (Note 25)	(Won) 7,349	(Won) 6,977
DILUTED ORDINARY INCOME PER SHARE (In currency units) (Note 25)	(Won) 7,349	(Won) 6,973
DILUTED NET INCOME PER SHARE (In currency units) (Note 25)	(Won) 7,349	(Won) 6,973

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	Korean Won (In millions)	2005
<b>RETAINED EARNINGS BEFORE APPROPRIATIONS:</b>			
Retained earnings (accumulated deficit) carried forward from prior years	(Won) 59		(Won) (194,772)
Effect on valuation of securities using the equity method		(1,582)	
Net income	2,472,111		2,252,218
	2,470,588		2,057,446
<b>APPROPRIATIONS:</b>			
Legal reserve (Note 17)	247,300		225,300
Voluntary reserve	994,900		1,646,500
Dividend (Note 17)	1,227,784		184,889
Other reserve	509		698
	2,470,493		2,057,387
<b>UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEARS</b>	(Won) 95		(Won) 59

See accompanying notes to non-consolidated financial statements.

## KOOKMIN BANK

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	Korean Won (In millions)	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	(Won) 2,472,111		(Won) 2,252,218
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal of trading securities	48,085		79,525
Loss on valuation of trading securities			14,550
Provision for possible loan losses	1,009,498		1,053,088
Loss on financial derivatives trading	4,080,808		3,575,745
Loss on valuation of financial derivatives	1,015,821		1,097,056
Loss on valuation of fair value hedged items	31,517		1,336
Loss on valuation of securities accounted for using the equity method	2,813		6,466
Provision for severance benefits	165,533		129,897
Depreciation and amortization	324,373		347,121
Loss on disposal of available-for-sale securities	15,283		19,199
Loss on impairment of available-for-sale securities	124,266		98,025
Loss on disposal of tangible assets	2,687		4,197
Loss on sale of loans	17,222		16,396
Gain on disposal of trading securities	(53,231)		(93,736)
Gain on valuation of trading securities	(6,922)		
Gain on financial derivatives trading	(4,419,007)		(3,652,414)
Gain on valuation of financial derivatives	(935,487)		(1,152,891)
Gain on valuation of fair value hedged items	(35,828)		(56,144)
Gain on valuation of securities accounted for using the equity method	(111,407)		(98,812)
Gain on disposal of available-for-sale securities	(182,325)		(319,534)
Gain on disposal of tangible assets	(10,470)		(11,377)
Gain on sale of loans	(36,311)		(81,743)
Others, net	140,697		414,827
	1,187,615		1,390,777

(Continued)

## KOOKMIN BANK

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	Korean Won (In millions)	2005
<b>Changes in assets and liabilities resulting from operations:</b>			
Net decrease in trading securities	(Won) 977,608		(Won) 83,746
Net decrease (increase) in accounts receivable	(1,706,151)		1,886,896
Net increase in accrued income	(168,609)		(27,184)
Net increase in prepaid expenses	(36,596)		(9,726)
Net decrease (increase) in deferred income tax assets	322,584		(23,224)
Net increase (decrease) in accounts payable	1,523,331		(1,888,528)
Net increase (decrease) in accrued expenses	(779,384)		690,859
Net increase (decrease) in advances from customers	(170,191)		169,124
Payment of severance benefits	(16,664)		(62,332)
Increase in severance insurance deposits	(98,450)		(43,204)
Others, net	163,308		174,067
	10,786		950,494
Net cash provided by operating activities	3,670,512		4,593,489
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in restricted due from banks	(1,037,901)		(418,580)
Net decrease in available-for-sale securities	1,567,538		1,492,570
Net increase in held-to-maturity securities	(704,763)		(3,939,317)
Net decrease (increase) in securities accounted for using the equity method	(20,613)		11,944
Net increase in loans	(15,364,066)		(1,005,348)
Disposal of fixed assets	23,706		28,641
Purchase of fixed assets	(364,345)		(170,149)
Net increase in other assets	(291,470)		(86,240)
Net cash used in investing activities	(16,191,914)		(4,086,479)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase (decrease) in deposits	3,734,898		(726,037)
Net increase (decrease) in debentures	8,388,146		(5,304,797)
Net increase in borrowings	421,790		4,214,085
Net increase (decrease) in other liabilities	(186,170)		526,640
Others, net	(174,274)		1,088,581
Net cash provided by (used in) financing activities	12,184,390		(201,528)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(337,012)		305,482
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	3,624,831		3,319,349
CASH AND DUE FROM BANKS, END OF YEAR (Note 30)	(Won) 3,287,819		(Won) 3,624,831

See accompanying notes to non-consolidated financial statements.

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KOOKMIN BANK

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. GENERAL:

Kookmin Bank (the "Bank") was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing to the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the legal consolidation with Housing and Commercial Bank ("H&CB") on October 31, 2001 and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on December 31, 2003.

The Bank's shares have been listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were listed on the Korea Stock Exchange on November 9, 2001. In addition, the Bank listed its American Depository Shares ("ADS") on the New York Stock Exchange ("NYSE") as of November 1, 2001 following the consolidation with H&CB. H&CB listed its ADS on the NYSE as of October 3, 2000 prior to the business combination. As of December 31, 2006, the Bank's paid-in capital is (Won)1,681,896 million.

The Bank is engaged in the banking, trust, credit card and other relevant businesses according to the provisions of the General Banking Act, Trust Business Act, and Specialized Credit Financial Business Act, respectively. The Bank operates through 1,132 domestic branches and offices (excluding 216 automated teller machine stations) and three overseas branches (excluding two subsidiaries and one office) as of December 31, 2006.

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 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.

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Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. When a loan is placed on non-accrual status, previously accrued interest is generally reversed and deducted from current interest income; and future interest income is recognized on the cash basis in accordance with the banking industry accounting standards. As of December 31, 2006 and 2005, the principal amount of loans and securities of which the accrued interest income was not recorded in the accompanying financial statements based on the above criteria amounted to (Won)6,052,684 million and (Won)7,875,123 million, respectively, and the related accrued interest income not recognized amounted to (Won)527,528 million and (Won)462,799 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 recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability.

Valuation of 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 capital adjustments. Accumulated capital adjustments of securities are 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 the capital adjustment account 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 Accounted for 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 or other capital accounts of investee are reflected as gain or loss on valuation of securities accounted for using the equity method in capital adjustments.

When the book value of equity securities accounted for 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 capital adjustments 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 Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustments 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 capital adjustments. 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 loss on impairment of 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 capital adjustment 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 capital adjustments and be 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 the capital adjustment account 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

The Supervisory Regulation of Banking Business (the Supervisory Regulation) legislated by the Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers repayment capability and historical financial transaction records. The Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages as described below.

As required by the Supervisory Regulation, the Bank classifies corporate credits (loans, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). However, credits to small companies and to households are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. The Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or credits collateralized by bank deposits, real estate and other assets may be classified differently based on the guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on the Bank's corporate credit evaluation model, credits to a borrower are classified into 12 grades from AAA to D (AAA, AA, A, A<sup>-</sup>, BBB, BB, B, B<sup>-</sup>, CCC, CC, C and D). Credits of grades of AAA to B are classified as normal, credits of grade B<sup>-</sup> to CCC as precautionary, credits of grade CC as substandard, credits of grade C as doubtful and credits of grade D as estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations. An allowance is then calculated on the category balances using the prescribed percentages of 0.7 ~ 6.9 percent for normal, 7.0 ~ 19.9 percent for precautionary, 20 ~ 49.9 percent for substandard, 50 ~ 99.9 percent for doubtful and 100 percent for estimated loss. However, the Bank does not provide allowances for call loans, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are calculated on the category balances using the prescribed percentages of 1.0 ~ 9.9 percent and 1.5 ~ 14.9 percent for normal, 10 ~ 19.9 percent and 15 ~ 19.9 percent for precautionary, 20 ~ 54.9 and 20 ~ 59.9 percent for substandard, 55 ~ 99.9 percent and 60 ~ 99.9 percent for doubtful, and 100 percent for estimated loss.

Pursuant to the Supervisory Regulation of Banking Business, the Bank provides allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and notes endorsed based on the credit classification, minimum rate of loss provision prescribed by the Financial Supervisory Service and the cash conversion factor. In addition, the Bank provides other allowances for the unused credit limit of credit card and unused credit line of consumer and corporate loans based on the cash conversion factor and minimum rate of loss provision prescribed by the Financial Supervisory Service.

Pursuant to the amended Supervisory Regulation, the Bank increased the minimum rate of loss provision for loans, confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, notes endorsed, and unused credit line classified as normal and precautionary in 2006. The Bank also extended the scope of other allowances for the unused credit limit of credit card to the extent of the unused credit line of card holders with no record of credit card transaction for the past 1 year. Due to these changes, allowance for possible loan losses, allowance for possible losses on acceptances and guarantees, and other allowances for unused credit limit increased by (Won)397.6 billion, (Won)4.3 billion and (Won)227.9 billion, respectively, as of December 31, 2006, and net income for the year then ended decreased by (Won)456.6 billion.

In addition, when an allowance for possible loan losses required by the Supervisory Regulation is less than the amount calculated based on the historical loss rate, which is estimated through objective and reasonable method in accordance with the accounting principle in the Republic of Korea, historical loss rate is reflected in the provision for possible loan losses.

The method and data used for determining the allowances for loan losses based on historical loss rate by the Bank's lending portfolios are determined as follows:

<b>Lending portfolios</b>	<b>Methodology</b>	<b>Period of historical loss rate</b>	<b>Period of recovery ratio</b>
Impaired corporate loans	DCF & Migration	N/A	N/A
Non-impaired corporate loans	Migration analysis	1 year	5 years
Consumer loans	Migration analysis	1 year	5 years
Credit card loans	Roll-rate analysis	1 year	5 years

Based on the loan portfolios' nature, lending period, recovery period and other economic factors, the Bank determines the appropriate data period to be used in assessing its historical loss rate and recovery ratio.

#### Restructuring of Loans

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the 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 included in fixed 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 structures) based on the estimated useful lives of the assets as follows:

<b>Tangible assets</b>	<b>Depreciation method</b>	<b>Estimated useful life</b>
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining balance	4-5 years
Equipment and vehicles	Declining balance	4-5 years

Intangible Assets and Related Amortization

Intangible assets included in fixed assets are recorded at the production costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the related assets or the activity method as follows:

<b>Intangible assets</b>	<b>Depreciation method</b>	<b>Estimated useful life</b>
Goodwill	Straight-line	9 years
Trademarks	Straight-line	5-20 years
Others	Straight-line	3-30 years

The Bank recorded goodwill as a result of the merger with H&CB, as the cost of the merger exceeded the fair value of the net assets acquired. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probably exerted, are capitalized as development costs. The Bank estimates the useful lives of endowment assets that are beneficial upon usage based on the term of the contract and are classified under other intangible assets.

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. If the latest auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations. In addition, the difference between the selling price and book value is recorded as a disposition gain or loss.

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.

Bonds under Resale or Repurchase Agreements

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



#### Contingent Liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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. In addition, as some or all expenditures required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as separate assets in the balance sheet and related income may be offset against expense in the income statement.

#### Accrued Severance Benefits

Employees and directors and temporary employees with at least one year of service as of December 31, 2006 are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to 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 Kyobo Life Insurance Co., Ltd and others. Withdrawal of these deposits is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

#### 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 as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment 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 capital adjustment is added to or deducted from the asset or the liability.

#### Accounting for Stock Options

In accordance with the Interpretations on Financial Accounting Standards 39-35 on the accounting for stock options, the Bank records stock compensation costs as a capital adjustment in cases where the Bank can choose to settle the vested stock option by issuing new shares or treasury stock, or payment of cash or cash equivalents to the difference between the market price and the exercise price at the exercise date. However, the compensation cost of certain options that is certain to be settled by cash payment is recorded in other liabilities (accrued expenses).

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National Housing Fund

The Bank, as designated by the Korean government under the Housing Law (former Housing Construction Promotion Law), manages the sources and uses of funds of the National Housing Fund (the NHF) and records the related NHF account in other liabilities. In addition, the Bank pays interest to NHF, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate.

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 other operating expense of the bank accounts and as other income of the trust accounts.

Income Tax Expense

Income tax expense is the amount currently payable for the period 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 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 (₩929.60 and ₩1,013.00 to US\$ 1.00 at December 31, 2006 and 2005, 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. 17 (Provisions, Contingent Liabilities and Contingent Assets) (SKAS No. 11 and No. 14 excluded) as of or before December 31, 2005. SKAS No. 18 (Interests in Joint Ventures), No. 19 (Lease) and No. 20 (Related Party Disclosures) have been adopted since January 1, 2006.

Reclassification

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

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks in Won and foreign currencies as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Cash and checks	(Won) 2,725,644	(Won) 2,683,479
Foreign currencies	151,406	150,402
Due from banks in Won	3,210,607	2,495,595
Due from banks in foreign currencies	480,649	537,941
	(Won) 6,568,306	(Won) 5,867,417

(2) Due from banks as of December 31, 2006 and 2005 consisted of (Unit: In millions):

Financial institution	Interest (%)	2006	2005
Due from banks in Won:			
BOK		(Won) 3,195,224	(Won) 2,189,339
Citibank Korea Inc. and others	0.00~2.20	9,377	302,873
Good Morning Shinhan Securities Co., Ltd and others	0.00~0.30	6,006	3,383
		(Won) 3,210,607	(Won) 2,495,595

Due from banks in foreign currencies:

BOK		(Won) 75,026	(Won) 46,501
JP Morgan Chase Bank, N.A and others	0.00~5.37	87,235	78,136
Qingdao International and others	5.47~5.81	318,388	413,304
		(Won) 480,649	(Won) 537,941

(3) Restricted due from banks in Won and foreign currencies as of December 31, 2006 and 2005 consisted of (Unit: In millions):

Financial institution	2006	2005	Reason for restriction
Due from banks in Won:			
BOK	(Won) 3,195,224	(Won) 2,189,339	BOK Act
Woori Bank	4,605	4,029	Escrow account
KB Futures Co., Ltd. and others	4,492	1,909	Futures margin accounts/others
Korea Exchange	250	328	Market entry due
Due from banks in foreign currencies:			
BOK	75,026	46,501	BOK Act
J.P. Morgan Futures Inc. and others	890	480	Futures margin accounts/others
	(Won) 3,280,487	(Won) 2,242,586	

(4) Due from banks by financial institution as of December 31, 2006 and 2005 consisted of (Unit: In millions):



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<b>Financial institution</b>	<b>2006</b>	<b>2005</b>
<b>Due from banks in Won:</b>		
BOK	(Won) 3,195,224	(Won) 2,189,339
Banks	9,377	302,873
Others	6,006	3,383
	3,210,607	2,495,595
<b>Due from banks in foreign currencies:</b>		
BOK	75,026	46,501
Banks	404,733	490,960
Others	890	480
	480,649	537,941
	(Won) 3,691,256	(Won) 3,033,536

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Term structure of due from banks as of December 31, 2006 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Due from banks in Won	(Won) 3,206,002	(Won) 4,029	(Won) 475	(Won) 101	(Won)	(Won) 3,210,607
Due from banks in foreign currencies	429,521	51,128				480,649
	(Won) 3,635,523	(Won) 55,157	(Won) 475	(Won) 101	(Won)	(Won) 3,691,256

Term structure of due from banks as of December 31, 2005 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Due from banks in Won	(Won) 2,491,566	(Won)	(Won)	(Won) 4,029	(Won)	(Won) 2,495,595
Due from banks in foreign currencies	433,602	104,339			(Won)	537,941
	(Won) 2,925,168	(Won) 104,339	(Won)	(Won) 4,029	(Won)	(Won) 3,033,536

4. SECURITIES:

(1) Securities as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Trading securities	(Won) 2,589,719	(Won) 3,551,425
Available-for-sale securities	15,113,898	16,180,784
Held-to-maturity securities	10,939,331	10,228,573
Securities accounted for using the equity method	739,532	589,517
	(Won) 29,382,480	(Won) 30,550,299

(2) The valuation of securities excluding securities accounted for using the equity method as of December 31, 2006 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	(Won)	(Won) 55,871	(Won)	(Won) 57,196

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Beneficiary certificates	100,285	100,737		103,488
Government and public bonds	387,598	375,518	369,206	376,597
Finance bonds	1,961,888	1,953,158	1,955,278	1,951,106
Corporate bonds	101,311	100,947	101,705	101,332
	(Won) 2,551,082	(Won) 2,586,231	(Won) 2,426,189	(Won) 2,589,719

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Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
<b>Available-for-sale securities:</b>				
Equity securities	(Won)	(Won) 1,337,214	(Won)	(Won) 1,975,847
Equity investments		510		3,840
Beneficiary certificates	601,394	601,194		608,242
Government and public bond	3,130,037	3,117,853	3,120,855	3,105,038
Finance bonds	7,830,928	7,767,030	7,793,953	7,782,194
Corporate bonds	1,000,411	965,657	950,345	950,200
Asset-backed securities	991,092	927,660	672,357	671,827
Other debt securities	18,412	8,843		16,710
	(Won) 13,572,274	(Won) 14,725,961	(Won) 12,537,510	(Won) 15,113,898
<b>Held-to-maturity securities:</b>				
Government and public bonds	(Won) 6,708,303	(Won) 6,633,496	(Won) 6,644,907	(Won) 6,644,907
Finance bonds	2,208,000	2,208,271	2,208,185	2,208,185
Corporate bonds	1,879,779	1,887,352	1,881,270	1,881,270
Asset-backed securities	205,000	204,906	204,969	204,969
	(Won) 11,001,082	(Won) 10,934,025	(Won) 10,939,331	(Won) 10,939,331

(\*) Acquisition costs of equity securities in available-for-sale are the book value before valuation.

The valuation of securities excluding securities accounted for using the equity method as of December 31, 2005 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
<b>Trading securities:</b>				
Equity securities	(Won)	(Won) 179,074	(Won)	(Won) 200,147
Beneficiary certificates	197	256		256
Government and public bonds	1,692,298	1,661,025	1,663,369	1,635,898
Finance bonds	1,607,663	1,601,395	1,603,586	1,594,839
Corporate bonds	120,000	119,407	119,690	120,285
	(Won) 3,420,158	(Won) 3,561,157	(Won) 3,386,645	(Won) 3,551,425
<b>Available-for-sale securities:</b>				
Equity securities	(Won)	(Won) 778,421	(Won)	(Won) 1,156,629
Equity investments		511		3,723
Beneficiary certificates	2,051,178	2,052,680		2,075,933
Government and public bonds	2,725,370	2,721,469	2,705,844	2,687,671
Finance bonds	8,324,183	8,246,513	8,248,052	8,232,310
Foreign government bonds	9,117	10,144	9,382	9,328
Corporate bonds	1,171,960	1,128,128	1,103,350	1,106,282
Asset-backed securities	1,114,117	1,050,685	901,878	900,821
Other debt securities	40,835	5,633		8,087
	(Won) 15,436,760	(Won) 15,994,184	(Won) 12,968,506	(Won) 16,180,784



Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
<b>Held-to-maturity securities:</b>				
Government and public bonds	(Won) 4,621,429	(Won) 4,605,400	(Won) 4,609,832	(Won) 4,609,832
Finance bonds	3,570,159	3,543,074	3,564,988	3,564,988
Corporate bonds	1,714,780	1,705,750	1,718,819	1,718,819
Asset-backed securities	335,000	334,906	334,934	334,934
	(Won) 10,241,368	(Won) 10,189,130	(Won) 10,228,573	(Won) 10,228,573

(\*) Acquisition costs of equity securities in available-for-sale are the book value before valuation.

As a result of the fair valuation of trading securities, the Bank recognized (Won)6,922 million of valuation gain and (Won)14,550 million of valuation loss for the years ended December 31, 2006 and 2005, respectively.

The fair values of trading and available-for sale debt securities in Won were assessed by applying the average of base prices as of December 31, 2006, provided by the bond pricing service institutions.

The fair value of the available-for-sale non-marketable equity securities such as Korea Housing Guarantee Co., Ltd. and 13 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co. and 5 others were reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value(IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount Model (DDM) and Risk Adjusted Discounted Cash Flow Model depending on the equity securities.

(3) Available-for-sale securities, which were not valued at fair value as of December 31, 2006 and 2005, were as follows (Unit: In millions):

Company	2006	2005
Bad Bank Harmony (preferred stock)	(Won) 58,848	(Won) 12,279
Korea Asset Management Corp.	15,667	15,667
Samsung Life Insurance Co., Ltd.	7,479	7,479
Korea Highway Corp.	6,248	6,248
CLS	5,128	5,191
Kyobo Investment Trust Management Co., Ltd.	2,100	2,100
Korea Money Broker Corp.	1,291	1,291
Mercury	1,088	1,088
Tianjin Samsung Opto Electronics	908	989
Others	12,696	17,281
	(Won) 111,453	(Won) 69,613

(4) The impairment loss and the reversal of impairment loss on available-for-sale securities recognized for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006		2005	
	Impairment	Reversal	Impairment	Reversal
Equity securities	(Won) 16,953	(Won) 83,485	(Won) 2,694	(Won) 7,422
Equity investments	1		3	
Corporate bonds		958	448	
Asset-backed securities	107,312		94,880	

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(Won) 124,266 (Won) 84,443 (Won) 98,025 (Won) 7,422

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(5) Structured notes relating to stock and interest rate and credit risk as of December 31, 2006 were as follows (Unit: In millions):

	Won	Foreign currencies	Total
<b>Structured notes relating to stock:</b>			
Convertible bonds	(Won)	(Won) 24,121	(Won) 24,121
<b>Structured notes relating to interest rate:</b>			
Long-term government bond floating rates notes ( FRN )	378,840		378,840
Dual indexed FRN	19,931		19,931
Inverse FRN	20,115		20,115
Others	110,236		110,236
	529,122		529,122
<b>Structured notes relating to Credit</b>			
Synthetic CDO		9,290	9,290
Bonds with embedded call option	20,000		20,000
	(Won) 549,122	(Won) 33,411	(Won) 582,533

Structured notes relating to stock, interest rate and credit risk as of December 31, 2005 were as follows (Unit: In millions):

	Won	Foreign currencies	Total
<b>Structured notes relating to stock:</b>			
Convertible bonds	(Won)	(Won) 60	(Won) 60
<b>Structured notes relating to interest rate:</b>			
Long-term government bond FRN	564,456		564,456
Dual indexed FRN	19,874		19,874
Inverse FRN	20,753		20,753
Others	110,225		110,225
	715,308		715,308
Credit linked notes		40,559	40,559
Bonds with call option	20,000		20,000
	(Won) 735,308	(Won) 40,619	(Won) 775,927

(6) Private beneficiary certificates included in beneficiary certificates of available-for-sale securities as of December 31, 2006 and 2005 were composed of (Unit: In millions):



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	<b>2006</b>	<b>2005</b>
Stocks	(Won) 90,874	(Won) 7,353
Government and public bonds	115,929	38,018
Finance bonds	359,282	1,340,390
Corporate bonds	27,943	32,622
Asset-backed debt securities	10,000	
Call loans	48,091	203,892
Others	59,878	412,962
Assets	711,997	2,035,237
Liabilities	2,504	11,081
	(Won) 709,493	(Won) 2,024,156

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- (7) The portfolio of securities excluding securities accounted for using the equity method, by industry, as of December 31, 2006 and 2005 were as follows (Unit: In millions):

By industry type	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Trading securities:</b>				
Government and government-invested public companies	(Won) 479,367	18.51	(Won) 1,764,476	49.68
Financial institutions	2,063,151	79.67	1,631,869	45.95
Others	47,201	1.82	155,080	4.37
	(Won) 2,589,719	100.00	(Won) 3,551,425	100.00
<b>Available-for-sale securities:</b>				
Government and government-invested public companies	(Won) 3,662,749	24.24	(Won) 3,347,229	20.69
Financial institutions	10,413,843	68.90	12,027,488	74.33
Others	1,037,306	6.86	806,067	4.98
	(Won) 15,113,898	100.00	(Won) 16,180,784	100.00
<b>Held-to-maturity securities:</b>				
Government and government-invested public companies	(Won) 8,406,232	76.84	(Won) 6,298,716	61.58
Financial institutions	2,503,154	22.88	3,899,922	38.13
Others	29,945	0.28	29,935	0.29
	(Won) 10,939,331	100.00	(Won) 10,228,573	100.00

- (8) The portfolio of securities excluding securities accounted for using the equity method, by security type, as of December 31, 2006 and 2005 were as follows (Unit: In millions):

By security type	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Trading securities:</b>				
Stocks	(Won) 57,196	2.21	(Won) 200,147	5.63
Fixed rate bonds	2,328,953	89.93	3,230,737	90.97
Floating rate bonds	100,082	3.86	120,285	3.39
Beneficiary certificates	103,488	4.00	256	0.01
	(Won) 2,589,719	100.00	(Won) 3,551,425	100.00
<b>Available-for-sale securities:</b>				
Stocks	(Won) 1,975,847	13.07	(Won) 1,156,629	7.15
Fixed rate bonds	11,215,054	74.20	11,201,802	69.23
Floating rate bonds	579,663	3.84	861,368	5.32
Subordinated bonds	690,028	4.57	872,813	5.39
Convertible bonds	24,121	0.16	60	0.00
Beneficiary certificates	608,242	4.02	2,075,933	12.83
Others	20,943	0.14	12,179	0.08
	(Won) 15,113,898	100.00	(Won) 16,180,784	100.00

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Held-to-maturity securities:

Fixed rate bonds	(Won) 10,879,331	99.45	(Won) 10,038,573	98.14
Floating rate bonds	60,000	0.55	60,000	0.59
Subordinated bonds		0.00	130,000	1.27
	(Won) 10,939,331	100.00	(Won) 10,228,573	100.00

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- (9) The portfolio of securities excluding securities accounted for using the equity method, by country, as of December 31, 2006 and 2005 were as follows (Unit: In millions):

By country type	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Trading securities:</b>				
Korea	(Won) 2,589,719	100.00	(Won) 3,551,425	100.00
<b>Available-for-sale securities:</b>				
Korea	(Won) 15,019,533	99.38	(Won) 16,066,362	99.29
Russia	33,573	0.22	28,527	0.18
USA	27,794	0.18	46,876	0.29
India	9,685	0.07	393	0.00
Ireland	9,290	0.06		
Switzerland	5,128	0.03	5,191	0.03
Philippines	378	0.00	9,675	0.06
The Republic of South Africa			6,240	0.04
Others	8,517	0.06	17,520	0.11
	(Won) 15,113,898	100.00	(Won) 16,180,784	100.00
<b>Held-to-maturity securities:</b>				
Korea	(Won) 10,939,331	100.00	(Won) 10,228,573	100.00

- (10) Term structure of securities (except for stocks and equity investments) in available-for-sale and held-to-maturity securities as of December 31, 2006 was as follows (Unit: In millions):

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
<b>Available-for-sale securities:</b>					
Fair value	(Won) 5,150,081	(Won) 7,685,231	(Won) 261,419	(Won) 37,480	(Won) 13,134,211
<b>Held-to-maturity securities:</b>					
Book value	3,211,790	5,276,939	2,450,602		10,939,331
Fair value	3,207,704	5,229,016	2,440,235		10,876,955

- Term structure of securities (except for stocks and equity investments) in available-for-sale and held-to-maturity securities as of December 31, 2005 was as follows (Unit: In millions):

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
<b>Available-for-sale securities:</b>					
Fair value	(Won) 7,864,997	(Won) 6,962,888	(Won) 184,008	(Won) 8,539	(Won) 15,020,432
<b>Held-to-maturity securities:</b>					
Book value	2,268,137	6,701,400	1,259,036		10,228,573
Fair value	2,264,029	6,589,801	1,195,982		10,049,812

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(11) Securities accounted for using the equity method as of December 31, 2006 were summarized as follows (Unit: In millions):

	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
<b>Domestic stocks:</b>					
KB Investment Co., Ltd.	8,951,293	99.99	(Won) 155,384	(Won) 94,443	(Won) 94,443
KB Futures Co., Ltd.	3,999,200	99.98	19,996	28,077	28,077
KB Data System Co., Ltd.	799,960	99.99	8,001	17,603	14,609
KB Real Estate Trust	15,999,930	99.99	76,103	99,539	99,544
KB Asset Management	6,134,040	80.00	39,015	65,271	65,271
KB Credit Information	1,249,040	99.73	14,291	35,314	34,735
KB Life Insurance Co., Ltd.	3,060,000	51.00	15,426	16,271	
KLB Securities Co., Ltd. (*1)	4,854,713	36.41	10,316		
Joeeun Industrial Co., Ltd. (*1)	1,999,910	99.99	23,994		
ING Life Insurance Korea Co., Ltd.	1,400,000	20.00	21,769	123,587	123,587
Balhae Infrastructure Fund (*2)	4,486,305	12.61	45,126	45,589	45,589
Korea Credit Bureau Co., Ltd. (*3)	180,000	9.00	4,500	3,297	3,297
			433,921	528,991	509,152
<b>Foreign stocks:</b>					
Kookmin Bank Singapore Ltd. (*1)	30,000,000	100.00	18,173		1,614
Kookmin Finance Asia Ltd. (HK) (*1)	700,000	100.00	7,420		226
Kookmin Bank Int'l Ltd. (London)	20,000,000	100.00	35,900	56,496	56,496
Kookmin Bank Hong Kong Ltd.	2,000,000	100.00	49,326	72,130	72,130
Sorak Financial Holdings PTE Ltd.	1,422,216	25.00	73,947	87,299	87,299
			184,766	215,925	217,765
<b>Equity investments:</b>					
Pacific IT Investment Partnership (*1)	700	50.00	6,252	1,958	1,958
NPC02-4 Kookmin Venture Fund	70	33.33	7,000	8,204	8,204
KB06-1 Venture Investment Partnership	50	50.00	2,500	2,453	2,453
			15,752	12,615	12,615
			(Won) 634,439	(Won) 757,531	(Won) 739,532

Securities accounted for using the equity method as of December 31, 2005 were summarized as follows (Unit: In millions):

	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
<b>Domestic stocks:</b>					
KB Investment Co., Ltd.	8,951,293	99.99	(Won) 155,384	(Won) 85,462	(Won) 85,462
KB Futures Co., Ltd.	3,999,200	99.98	19,996	27,312	27,312
KB Data System Co., Ltd.	799,960	99.99	8,001	17,726	15,582
KB Real Estate Trust	15,999,930	99.99	76,103	80,975	81,068
KB Asset Management	6,134,040	80.00	39,015	52,485	52,485
KB Credit Information	1,249,040	99.73	14,291	28,629	27,837
KB Life Insurance Co., Ltd.	3,060,000	51.00	15,426	12,541	
KLB Securities Co., Ltd. (*1)	4,854,713	36.41	10,316		
Joeeun Industrial Co., Ltd. (*1)	1,999,910	99.99	23,994		
ING Life Insurance Korea	1,400,000	20.00	21,769	77,529	77,529

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			384,295	382,659	367,275
Foreign stocks:					
Kookmin Bank Singapore Ltd. (*1)	30,000,000	100.00	18,254		1,759
Kookmin Finance Asia Ltd. (HK) (*1)	700,000	100.00	8,086		246
Kookmin Bank Int'l Ltd. (London)	20,000,000	100.00	34,378	50,523	50,523
Kookmin Bank Hong Kong Ltd.	2,000,000	100.00	53,751	69,907	69,958
Sorak Financial Holdings PTE Ltd.	1,422,216	25.00	74,277	82,401	82,401
			188,746	202,831	204,887

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	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
Equity investments:					
KICO No. 2 Venture Investment Partnership (*4)	250	55.56	(Won)	(Won) 130	(Won) 130
KICO No. 3 Venture Investment Partnership (*4)		69.23		147	147
Pacific IT Investment Partnership (*1)	700	50.00	7,000	4,950	4,950
NPC02-4 Kookmin Venture Fund	100	33.33	10,000	12,128	12,128
			17,000	17,355	17,355
			(Won) 590,041	(Won) 602,845	(Won) 589,517

- (\*1) KLB Securities Co., Ltd., Jooeun Industrial Co., Ltd., Kookmin Bank Singapore Ltd., Kookmin Finance Asia, Ltd. and Pacific IT Investment Partnership are all in the process of liquidation as of December 31, 2006.
- (\*2) The Bank may exercise its voting right at the board meeting or at an equally significant decision making body of the investee.
- (\*3) The Bank has significant influence in electing the board member who may participate in the decision making process relating to the financial and business policy of the investee.
- (\*4) The liquidation of KICO No. 2 Venture Investment Partnership and KICO No. 3 Venture Investment Partnership has been finalized in the current fiscal year

- (12) The valuation of securities accounted for using the equity method for the year ended December 31, 2006 was as follows (Unit: In millions):

	Book value before valuation	Increase (Decrease)	Dividend	Foreign currency translation gain (loss)	Equity gain (loss) on investment	Capital adjustments	Retained earnings	Book value after valuation
Domestic stocks:								
KB Investment Co., Ltd.	(Won) 85,462	(Won)	(Won) (2,238)	(Won)	(Won) 10,974	(Won) 245	(Won)	(Won) 94,443
KB Futures Co., Ltd.	27,312		(1,000)		1,823	(58)		28,077
KB Data System Co., Ltd. (*3)	15,582		(2,399)		1,426			14,609
KB Real Estate Trust	81,068				18,337	139		99,544
KB Asset Management	52,485		(6,134)		18,909	11		65,271
KB Credit Information (*1)	27,837		(624)		7,522			34,735
KB Life Insurance Co., Ltd. (*2 and 3)						1,582	(1,582)	
KLB Securities Co., Ltd. (*2)								
Jooeun Industrial Co., Ltd. (*2)								
ING Life Insurance Korea	77,529				31,308	14,750		123,587
Balhae Infrastructure Fund		45,126	(11)		474			45,589
Korea Credit Bureau Co., Ltd.		4,500			(1,203)			3,297

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367,275	49,626	(12,406)	89,570	16,669	(1,582)	509,152
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	Book value before valuation		Increase (Decrease)	Dividend	Foreign currency translation gain (loss)	Equity gain (loss) on investment	Capital adjustments	Retained earnings	Book value after valuation
Foreign stocks									
Kookmin Bank Singapore Ltd.	(Won) 1,759	(Won)	(Won)	(Won)	(Won) (145)	(Won)	(Won)	(Won)	(Won) 1,614
Kookmin Finance Asia Ltd. (HK)	246				(20)				226
Kookmin Bank Int'l Ltd. (London)	50,523				2,237	4,262	(526)		56,496
Kookmin Bank Hong Kong Ltd. Sorak Financial Holdings PTE Ltd.	69,958			(6,009)	(438)	7,065	4,280		87,299
	204,887			(6,009)	(4,126)	19,371	3,642		217,765
Equity Securities									
KICO No. 2 Venture Investment Partnership	130		(93)			(37)			
KICO No. 3 Venture Investment Partnership	147		(117)			(30)			
Pacific IT Investment Partnership NPC02-4	4,950		(1,496)			(1,496)			1,958
Kookmin Venture Fund	12,128		(3,000)	(2,129)		1,263	(58)		8,204
KB06-1 Venture Investment Partnership			2,500			(47)			2,453
	17,355		(2,206)	(2,129)		(347)	(58)		12,615
	(Won) 589,517	(Won) 47,420	(Won) (20,544)	(Won) (4,126)	(Won) 108,594	(Won) 20,253	(Won) (1,582)	(Won) 739,532	

(\*1) Differences amounting to (Won)1,128 million between the purchase price and the Bank's proportionate ownership of the net book value of KB Credit Information resulting from an additional purchase of 342,844 shares in October 2004 are credited to gain on valuation of

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securities accounted for using the equity method equally for five years. The Bank credited (Won)226 million to current operation for the year ended December 31, 2006 and the balance was (Won)620 million as of December 31, 2006.

- (\*2) The equity method is no longer applied to securities of KLB Securities Co., Ltd. and Joeun Industrial Co., Ltd. due to accumulated deficit, and to securities of KB Life Insurance Co., Ltd. due to unrealized income elimination, which led to a decrease in the book value to below zero. The unrecognized accumulated deficit and change due to the equity method as of December 31, 2006 (Unit: In millions):

	Deficit	Change due to equity method	Total
KLB Securities Co., Ltd.	(Won) 4,148	(Won)	(Won) 4,148
Joeun Industrial Co., Ltd.	41,010		41,010
KB Life Insurance Co., Ltd.	27,217	3,436	30,653
	(Won) 72,375	(Won) 3,436	(Won) 75,811

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(\*3) The significant unrealized income eliminated for the year ended December 31, 2006 was as follows (Unit: In millions):

	Related accounts	Amount
KB Data System Co., Ltd.	Tangible assets (sales)	(Won) 914
KB Life Insurance Co., Ltd.	Commissions (deferred acquisition cost)	3,730
		(Won) 4,644

(13) Significant financial data of companies of which stocks were accounted for using the equity method as of and for the year ended December 31, 2006 were as follows (Unit: In millions):

	Assets	Liabilities	Sales	Net income (loss)
KB Investment Co., Ltd.	(Won) 96,296	(Won) 1,848	(Won) 20,030	(Won) 10,974
KB Futures Co., Ltd.	67,145	39,062	11,487	1,824
KB Data System Co., Ltd.	33,471	15,868	67,588	2,277
KB Real Estate Trust	206,392	106,853	66,122	18,424
KB Asset Management	92,220	10,631	44,826	23,636
KB Credit Information	43,938	8,529	71,532	7,329
KB Life Insurance Co., Ltd.	700,438	668,535	409,302	4,187
Joeeun Industrial Co., Ltd.	110,193	182,882	64,404	2,253
ING Life Insurance Korea	9,635,249	9,017,312	3,149,367	156,539
Balhae Infrastructure Fund	362,440	4,410	6,404	3,765
Korea Credit Bureau Co., Ltd.	42,826	6,193	13,963	(5,645)
Kookmin Bank Int'l Ltd. (London)	315,938	259,442	20,634	3,736
Kookmin Bank Hong Kong Ltd.	395,935	323,805	27,568	7,963
Sorak Financial Holdings PTE Ltd.	5,197,633	4,848,437	680,311	33,189
Pacific IT Investment Partnership	1,986	28		(1,496)
NPC02-4 Kookmin Venture Fund	24,852	240	5,459	3,790
KB06-1 Venture Investment Partnership	5,067	162	67	(95)

Unaudited financial statements as of December 31, 2006 were used for the equity method valuation. There was no material exception as a result of analytical review, such as analysis of major accounts to assess reliability of those financial statements. However, in case of ING Life Insurance Korea and Sorak Financial Holdings PTE Ltd., the unaudited financial statements as of November 30, 2006 were used for the equity method valuation. The significant events from the closing dates of the investees to that of the Bank were properly reflected in applying the equity method.

(14) Changes in the gain (loss) on valuation of available-for-sale securities, held-to-maturity securities and securities accounted for using the equity method reflected in capital adjustments for the year ended December 31, 2006 were as follows (Unit: In millions):

	Beginning	Increase (Decrease)	Disposal	Ending
Gain (loss) on valuation of available-for-sale securities:				
Equity securities	(Won) 454,250	(Won) 470,552	(Won) (78,679)	(Won) 846,123
Debt securities in Won	32,614	(3,203)	(6,742)	22,669
Debt securities in foreign currencies	5,867	1,671	(3,528)	4,010
Beneficiary certificates	16,858	4,894	(16,702)	5,050
Others	1,779	3,925		5,704
	(Won) 511,368	(Won) 477,839	(Won) (105,651)	(Won) 883,556

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Gain on valuation of held-to-maturity securities:

Debt securities in Won	(Won)	426	(Won)	(Won)	(328)	(Won)	98
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Gain on valuation of securities accounted for using  
the equity method

(Won)	948	(Won)	15,522	(Won)	(582)	(Won)	15,888
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(15) Securities provided as collateral as of December 31, 2006 were as follows (Unit: In millions):

Provided to	Book value	Collateral amount	Provided for
Korea Securities Depository & others	(Won) 7,070,657	(Won) 7,100,000	Bonds sold under repurchase agreements
BOK	725,902	725,700	Borrowings from BOK
BOK	330,294	330,600	Overdrafts and settlement risk
Samsung Futures & others	294,760	307,500	Derivative settlement
Other	402	1,628	Other
	(Won) 8,422,015	(Won) 8,465,428	

Securities provided as collateral as of December 31, 2005 were as follows (Unit: In millions):

Provided to	Book value	Collateral amount	Provided for
Korea Securities Depository & others	(Won) 6,571,036	(Won) 6,570,000	Bonds sold under repurchase agreements
BOK	953,153	950,000	Borrowings from BOK
BOK	183,994	183,200	Overdrafts and settlement risk
Samsung Futures & others	260,571	269,500	Derivative settlement
Other	1,628	1,628	Other
	(Won) 7,970,382	(Won) 7,974,328	

(16) Securities lent as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006	2005	Provided to
Government and public bonds	(Won) 119,614	(Won) 98,625	Korea Securities Depository & Others
Finance bonds	23,671	35,241	Korea Securities Depository
	(Won) 143,285	(Won) 133,866	

5. LOANS:

(1) Loans as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Loans in Won	(Won) 125,574,817	(Won) 118,565,341
Loans in foreign currencies	7,261,811	5,314,883
Call loans	1,247,109	1,518,948
Bills bought in Won	16,587	18,563
Bills bought in foreign currencies	1,270,314	1,377,085
Advances for customers	19,209	11,321
Credit card receivables	8,667,740	7,571,605

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Private placed bonds	7,499,208	3,729,867
Factoring receivables	30,948	32,044
Loans for debt-equity swap	1,968	
Bonds Purchased under Repurchase Agreements	500,000	
	152,089,711	138,139,657
Allowance for possible loan losses	(2,360,867)	(2,453,275)
Deferred loan origination fees and costs	138,338	52,025
	(Won) 149,867,182	(Won) 135,738,407

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(2) Loans in Won and loans in foreign currencies as of December 31, 2006 and 2005 were as follows (Unit: In millions):

		2006	2005	
<b>Loans in Won:</b>				
<b>Commercial</b>	Working capital loans			
	General purpose loans	(Won) 27,161,083	(Won) 24,575,874	
	Notes discounted	697,235	1,106,112	
	Overdraft accounts	286,724	279,864	
	Trading notes	612,305	671,421	
	Others	4,297,074	3,865,057	
		33,054,421	30,498,328	
	<b>Facilities loans</b>			
	General facilities loans	5,107,519	3,985,218	
	Others	995,730	1,087,832	
	6,103,249	5,073,050		
	39,157,670	35,571,378		
<b>Households</b>	General purpose loans	45,946,145	42,082,535	
	Housing loans	39,007,176	39,535,441	
	Remunerations on mutual installment savings	147,672	232,556	
	Others	416,103	456,173	
		85,517,096	82,306,705	
<b>Public sector</b>	Public operation loans	894,178	643,141	
	Public facilities loans	3,687	34,157	
		897,865	677,298	
<b>Other</b>	Property formation loans	1,013	6,748	
	Inter-bank loans		1,274	
	Others	1,173	1,938	
		2,186	9,960	
	(Won) 125,574,817	(Won) 118,565,341		
<b>Loans in foreign currencies:</b>				
	Domestic funding loans	(Won) 4,441,975	(Won) 2,208,125	
	Overseas funding loans	429,836	551,049	
	Inter-bank loans	1,133,253	1,229,064	
	Domestic usance bills	1,256,747	1,326,629	
	Government funding loans		16	
		(Won) 7,261,811	(Won) 5,314,883	

(3) Loans in Won and loans in foreign currencies, classified by borrower type, as of December 31, 2006 were as follows (Unit: In millions):

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By borrower type	Loans in Won		Loans in foreign currencies		Total		Percentage
	(Won)		(Won)		(Won)		(%)
Large corporations	2,783,921		4,437,045		7,220,966		5.44
Small and medium corporations	36,373,749		1,420,308		37,794,057		28.45
Households	85,519,282				85,519,282		64.38
Others	897,865		1,404,458		2,302,323		1.73
	(Won) 125,574,817		(Won) 7,261,811		(Won) 132,836,628		100.00



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Loans in Won and loans in foreign currencies, classified by borrower type, as of December 31, 2005 were as follows (Unit: In millions):

By borrower type	Loans in Won	Loans in foreign currencies	Total	Percentage (%)
Large corporations	(Won) 3,510,892	(Won) 2,332,245	(Won) 5,843,137	4.72
Small and medium corporations	32,061,760	1,487,584	33,549,344	27.08
Households	82,315,391		82,315,391	66.46
Others	677,298	1,495,054	2,172,352	1.74
	(Won) 118,565,341	(Won) 5,314,883	(Won) 123,880,224	100.00

(4) Loans classified by borrower's country or region as of December 31, 2006 were as follows (Unit: In millions):

By country	Loans in Won	Loans in foreign currencies	Others	Total	Percentage(%)
Korea	(Won) 125,574,817	(Won) 7,006,258	(Won) 19,174,054	\151,755,129	99.78
Southeast Asia		25,525	1	25,526	0.02
China		7,019		7,019	0.01
Japan		172,447	78	172,525	0.11
Central and South America		4,142	1	4,143	0.00
USA		84	2,438	2,522	0.00
Others		46,336	76,511	122,847	0.08
	(Won) 125,574,817	(Won) 7,261,811	(Won) 19,253,083	(Won) 152,089,711	100.00

Loans classified by borrower's country or region as of December 31, 2005 were as follows (Unit: In millions):

By country	Loans in Won	Loans in foreign currencies	Others	Total	Percentage(%)
Korea	(Won) 118,565,341	(Won) 4,343,365	(Won) 14,134,599	(Won) 137,043,305	99.21
Southeast Asia		77,018		77,018	0.05
China		362,468	5,065	367,533	0.27
Japan		270,131	72	270,203	0.19
Central and South America		7,524	19	7,543	0.01
Others		254,377	119,678	374,055	0.27
	(Won) 118,565,341	(Won) 5,314,883	(Won) 14,259,433	(Won) 138,139,657	100.00

(5) Loans classified by industry as of December 31, 2006 were as follows (Unit: In millions):

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By industry	Loans in				Percentage
	Loans in Won	foreign currencies	Others	Total	(%)
Corporations:					
Finance and insurance	(Won) 622,860	(Won) 1,181,790	(Won) 2,726,763	(Won) 4,531,413	2.98
Manufacturing	11,148,580	2,521,963	3,474,130	17,144,673	11.27
Services	16,337,444	1,030,318	1,735,734	19,103,496	12.56
Others	11,779,703	2,520,990	3,433,721	17,734,414	11.66
Households	85,519,282		7,505,000	93,024,282	61.17
Public sector	166,948	6,750	377,735	551,433	0.36
	(Won) 125,574,817	(Won) 7,261,811	(Won) 19,253,083	(Won) 152,089,711	100.00

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Loans classified by industry as of December 31, 2005 were as follows (Unit: In millions):

By industry	Loans in			Loans in		Total	Percentage (%)
	Won	Loans in foreign currencies	Others	Others	Loans in foreign currencies		
Corporations:							
Finance and insurance	(Won) 1,083,695	(Won) 1,286,271	(Won) 2,130,624	(Won) 4,500,590			3.26
Manufacturing	11,370,692	1,713,587	2,467,194	15,551,473			11.26
Services	12,845,575	904,042	1,025,982	14,775,599			10.70
Others	10,738,576	1,400,538	2,110,284	14,249,398			10.32
Households	82,315,391		6,525,160	88,840,551			64.31
Public sector	211,412	10,445	189	222,046			0.15
	(Won) 118,565,341	(Won) 5,314,883	(Won) 14,259,433	(Won) 138,139,657			100.00

(6) Loans to financial institutions as of December 31, 2006 were as follows (Unit: In millions):

	Bank	Other financial institutions	Total
Loans in Won	(Won) 622,860	(Won) 622,860	(Won) 622,860
Loans in foreign currencies	1,133,253	48,537	1,181,790
Others	1,780,151	946,612	2,726,763
	(Won) 2,913,404	(Won) 1,618,009	(Won) 4,531,413

Loans to financial institutions as of December 31, 2005 were as follows (Unit: In millions):

	Bank	Other financial institutions	Total
Loans in Won	(Won) 1,274	(Won) 1,082,421	(Won) 1,083,695
Loans in foreign currencies	1,229,064	57,207	1,286,271
Others	1,549,523	581,101	2,130,624
	(Won) 2,779,861	(Won) 1,720,729	(Won) 4,500,590

(7) The classification of asset quality for loans as of December 31, 2006 is summarized as follows (Unit: In millions):

	Estimated					Total
	Normal	Precautionary	Substandard	Doubtful	loss	
Loans in Won	(Won) 122,782,925	(Won) 1,433,346	(Won) 663,162	(Won) 455,430	(Won) 239,954	(Won) 125,574,817
Loans in foreign currencies	7,138,780	67,041	31,024	22,426	2,540	7,261,811
Call loans	1,247,109					1,247,109
Bills bought	1,283,897	2,338	283	297	86	1,286,901
	133	508	8,753	1,833	7,982	19,209

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Advances for customers						
Credit card receivables	8,341,239	215,089	648	71,227	39,537	8,667,740
Privately placed bonds	7,498,067		650		491	7,499,208
Factoring receivables	30,948					30,948
Loans to be swapped to equity				1,968		1,968
Bond purchased under repurchase agreements	500,000					500,000
	(Won) 148,823,098	(Won) 1,718,322	(Won) 704,520	(Won) 553,181	(Won) 290,590	(Won) 152,089,711

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The classification of asset quality for loans as of December 31, 2005 is summarized as follows (Unit: In millions):

	Estimated					
	Normal	Precautionary	Substandard	Doubtful	loss	Total
Loans in Won	(Won) 113,720,332	(Won) 2,784,972	(Won) 937,477	(Won) 758,344	(Won) 364,216	(Won) 118,565,341
Loans in foreign currencies	5,197,617	60,553	24,285	31,648	780	5,314,883
Call loans	1,518,948					1,518,948
Bills bought	1,388,538	5,009	136	288	1,677	1,395,648
Advances for customers	1,201	439	1,394	2,049	6,238	11,321
Credit card receivables	7,068,006	337,624	895	122,365	42,715	7,571,605
Privately placed bonds	3,727,026	967	1,874			3,729,867
Factoring receivables	30,990		1,054			32,044
	(Won) 132,652,658	(Won) 3,189,564	(Won) 967,115	(Won) 914,694	(Won) 415,626	(Won) 138,139,657

(8) The term structure of loans as of December 31, 2006 was as follows (Unit: In millions):

	Loans in foreign			
	Loans in Won	currencies	Others	Total
Due in 3 months or less	(Won) 15,122,967	(Won) 2,254,326	(Won) 9,226,195	(Won) 26,603,488
Due after 3 months through 6 months	14,837,648	1,309,033	1,226,601	17,373,282
Due after 6 months through 1 year	30,049,634	946,209	2,374,525	33,370,368
Due after 1 year through 2 years	10,138,015	347,781	2,653,540	13,139,336
Due after 2 years through 3 years	11,764,066	1,177,131	2,494,252	15,435,449
Due after 3 years through 4 years	4,847,371	200,535	226,555	5,274,461
Due after 4 years through 5 years	2,399,378	647,661	706,345	3,753,384
More than 5 years	36,415,738	379,135	345,070	37,139,943
	(Won) 125,574,817	(Won) 7,261,811	(Won) 19,253,083	(Won) 152,089,711

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The term structure of loans as of December 31, 2005 was as follows (Unit: In millions):

	Loans in foreign			
	Loans in Won	currencies	Others	Total
Due in 3 months or less	(Won) 16,824,261	(Won) 2,032,241	(Won) 8,176,341	(Won) 27,032,843
Due after 3 months through 6 months	16,013,982	1,133,825	731,058	17,878,865
Due after 6 months through 1 year	32,977,463	978,607	1,379,070	35,335,140
Due after 1 year through 2 years	13,682,894	236,590	1,038,570	14,958,054
Due after 2 years through 3 years	10,237,525	327,997	1,499,611	12,065,133
Due after 3 years through 4 years	4,314,197	77,561	42,542	4,434,300
Due after 4 years through 5 years	5,254,662	234,017	191,646	5,680,325
More than 5 years	19,260,357	294,045	1,200,595	20,754,997
	(Won) 118,565,341	(Won) 5,314,883	(Won) 14,259,433	(Won) 138,139,657

(9) Disposal of loans

The Bank disposed loans amounting to (Won)324,052 million of principal to KB 7<sup>th</sup> Securitization Specialty Co., Ltd., and recognized a gain of (Won)36,311 million for the year ended December 31, 2006. In addition, the Bank disposed loans amounting to (Won)210,589 million of principal to KB 8<sup>th</sup> Securitization Specialty Co., Ltd., and recognized a gain of (Won)17,222 million for the year ended December 31, 2006.

(10) Credit card receivables as collateral

The Bank offers the credit card receivables amounting to (Won)253,591 million (before deducting the allowance) as collateral for the transaction of credit card receivables to SPC as of December 31, 2006.

(11) The changes in loan origination costs for the year ended December 31, 2006 were as follows (Unit: In millions):

	Beginning	Increase	Decrease	Ending
Loan origination costs	(Won) 52,025	(Won) 113,141	(Won) 26,828	(Won) 138,338

6. RESTRUCTURED LOANS:

(1) The loans that were restructured by means of principal reduction, debt-equity swap, interest reduction because of workouts for the year ended December 31, 2006 were as follows (Unit: In millions):

	Amount before restructuring	Principal exemption	Conversion to equity securities	Interest reduction	Extension of maturity
Composition	(Won) 6,178	(Won)	(Won)	(Won)	(Won) 6,178
Workout plan	236,287	301	4,083	25,374	206,529
Debt restructuring (*)	894				894

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243,359

301

4,083

25,374

213,601

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(\*) In accordance with the Bankruptcy and Debt Restructuring Act

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Changes in the present value discounts relating to the outstanding restructured loans for the year ended December 31, 2006 were as follows (Unit: In millions):

	Amount	Beginning balance	Present value discounts		Ending balance
			Addition	Deduction	
Court receivership	(Won) 9,336	(Won) 2,035	(Won) 1,034	(Won) 2,035	(Won) 1,034
Composition	13,143	2,238	1,689	2,652	1,275
Workout plan	111,064	11,371	11,206	15,710	6,867
Others	32,470	4,371		1,534	2,837
	(Won) 166,013	(Won) 20,015	(Won) 13,929	(Won) 21,931	(Won) 12,013

If the loans are restructured by means of reduction of interest rates, cash flows of fixed rate loans are discounted by effective interest rates originally agreed upon and cash flows of floating rate loans are discounted by interest rates determined by adding a credit risk premium, which is calculated at the restructuring date, assuming that debtors' credit at the origination date is effective to the restructuring date, to a benchmark interest rate. The difference between the book value and the present value is presented as an allowance for possible loan losses.

7. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The allowance for possible loan losses as of December 31, 2006 is summarized as follows (Unit: In millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Won	(Won) 1,112,842	(Won) 164,947	(Won) 143,050	(Won) 296,148	(Won) 239,954	(Won) 1,956,941
Loans in foreign currencies	42,163	5,739	13,582	14,811	2,540	78,835
Bills bought	8,987	259	57	182	86	9,571
Advances for customers	1	36	4,096	1,124	7,982	13,239
Credit card receivables	129,619	32,263	130	42,736	39,537	244,285
Privately placed bonds	52,486		161		491	53,138
Factoring receivables	2,910					2,910
Loans for debt-equity swap				1,948		1,948
	(Won) 1,349,008	(Won) 203,244	(Won) 161,076	(Won) 356,949	(Won) 290,590	(Won) 2,360,867

The allowance for possible loan losses as of December 31, 2005 is summarized as follows (Unit: In millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Won	(Won) 777,038	(Won) 293,589	(Won) 198,047	(Won) 493,880	(Won) 364,216	(Won) 2,126,770
Loans in foreign currencies	20,048	2,665	7,264	19,904	780	50,661
Bills bought	6,943	228	27	180	1,677	9,055
Advances for customers	6	9	279	1,469	6,238	8,001
Credit card receivables	77,680	40,515	179	73,419	42,715	234,508
Privately placed bonds	18,635	217	918			19,770
Factoring receivables	4,299		211			4,510
	(Won) 904,649	(Won) 337,223	(Won) 206,925	(Won) 588,852	(Won) 415,626	(Won) 2,453,275



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Pursuant to the amended Supervisory Regulation, the Bank increased the minimum rate of loss provision for loans classified as normal and precautionary in 2006. Due to the change, allowance for possible loan losses increased by (Won)397.6 billion as of December 31, 2006.

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(2) The changes in allowance for possible loan losses for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

	<b>2006</b>	<b>2005</b>
Beginning balance (*1)	(Won) 2,500,777	(Won) 3,186,095
Provision for possible loan losses	1,009,498	1,053,088
Reclassification from other allowances (*2)	304,954	17,501
Collection of previously written-off loans	474,278	452,959
Repurchase of NPLs sold	5,897	15,863
Sales of loans	(115,222)	(217,875)
Loans written-off	(1,693,468)	(1,978,875)
Conversion to equity securities		(11,444)
Exemption of loans	(4,582)	(9,570)
Changes in exchange rates and others	(19,053)	(6,967)
<b>Ending balance (*1)</b>	<b>(Won) 2,463,079</b>	<b>(Won) 2,500,777</b>

(\*1) Allowance for possible loan losses includes present value discounts amounting to (Won)12,013 million and (Won)20,015 million as of December 31, 2006 and 2005, respectively, and allowances for other assets amounting to (Won)102,212 million and (Won) 47,502 million, respectively.

(\*2) Other allowances for credit lines to Kookmin Card 16<sup>th</sup> Securitization Specialty Co., Ltd. and FNSTAR 3<sup>rd</sup> Securitization Special Co., Ltd. amounting to (Won)159,888 million and (Won)145,066 million, respectively, were transferred to allowances for loan losses for the year ended December 31, 2006. Other allowances for credit lines to Kookmin Card 16<sup>th</sup> Securitization Specialty Co., Ltd. amounting to (Won)17,501 million were transferred to allowances for loan losses for the year ended December 31, 2005.

(3) The allowance for possible losses on other assets as of December 31, 2006 and 2005 is summarized as follows (Unit: In millions):

	<b>2006</b>	<b>2005</b>
Suspense receivables	(Won) 7,425	(Won) 20,447
Uncollected guarantee deposits for rent	4,847	8,269
Settlement costs for financial accident	87,122	15,844
Derivative instruments	2,597	2,283
Others	221	659
	<b>(Won) 102,212</b>	<b>(Won) 47,502</b>

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

	<b>Loans</b>	<b>Allowance for possible loan losses</b>	<b>Percentage (%)</b>
December 31, 2006	(Won) 152,089,711	(Won) 2,360,867	1.55
December 31, 2005	138,139,657	2,453,275	1.78
December 31, 2004	138,839,212	3,118,775	2.25

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8. **FIXED ASSETS:**

(1) Fixed assets as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	<b>2006</b>	<b>2005</b>
Tangible assets	(Won) 3,855,268	(Won) 3,670,603
Less: accumulated depreciation	(1,702,001)	(1,620,892)
accumulated impairment loss	(15,535)	(11,466)
Intangible assets	371,312	398,104
Non-business use property	499	583
Less: valuation allowance	(169)	(230)
	(Won) 2,509,374	(Won) 2,436,702

(2) Tangible assets as of December 31, 2006 consisted of (Unit: In millions):

	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	(Won) 984,270	(Won)	(Won) 7,115	(Won) 977,155
Buildings	986,420	181,228	8,420	796,772
Leasehold improvements	233,156	177,676		55,480
Equipment and vehicles	1,648,763	1,343,097		305,666
Construction in progress	2,659			2,659
	(Won) 3,855,268	(Won) 1,702,001	(Won) 15,535	(Won) 2,137,732

Tangible assets as of December 31, 2005 consisted of (Unit: In millions):

	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	(Won) 986,522	(Won)	(Won) 7,109	(Won) 979,413
Buildings	939,204	160,328	4,357	774,519
Leasehold improvements	190,109	145,746		44,363
Equipment and vehicles	1,554,613	1,314,818		239,795
Construction in progress	155			155
	(Won) 3,670,603	(Won) 1,620,892	(Won) 11,466	(Won) 2,038,245

(3) The changes in book value of tangible assets for the year ended December 31, 2006 were as follows (Unit: In millions):

	<b>Beginning</b>	<b>Acquisition</b>	<b>Replacement</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Impairment</b>	<b>Change in foreign currencies</b>	<b>Ending</b>
Land	(Won) 979,413	(Won) 3,349	(Won) 2,873	(Won) 8,151	(Won)	(Won) (290)	(Won) (39)	(Won) 977,155
Buildings	774,519	5,745	49,422	6,289	22,059	(4,449)	(117)	796,772
Leasehold improvements	44,363	113	45,504	142	34,337		(21)	55,480
	239,795	254,835		22,915	165,986		(63)	305,666

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Equipment and  
vehicles

Construction  
in progress

155

100,303

(97,799)

2,659

(Won) 2,038,245

(Won) 364,345

(Won)

(Won) 37,497

(Won) 222,382

(Won) (4,739)

(Won) (240)

(Won) 2,137,732

- (4) The published value of the land was (Won)1,307,078 million and (Won) 1,059,377 million as of December 31, 2006 and 2005, respectively, based on the Laws on Disclosure of Land Price and Valuation of Land

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(5) Tangible assets, which have been insured as of December 31, 2006, were as follows (Unit: In millions):

Type of insurance	Asset insured	Insured amount	Insurance company
Property composite	Buildings	(Won) 829,507	Samsung Fire & Marine
	Leasehold improvements	120,043	Insurance Co., Ltd. & others
	Equipment and vehicles	196,152	
		(Won) 1,145,702	

(6) Intangible assets as of December 31, 2006 consisted of (Unit: In millions):

	Acquisition cost	Accumulated amortization	Book value
Goodwill	(Won) 705,108	(Won) 404,784	(Won) 300,324
Others	125,502	54,514	70,988
	(Won) 830,610	(Won) 459,298	(Won) 371,312

(7) The changes in intangible assets for the year ended December 31, 2006 were as follows (Unit: In millions):

	Beginning	Increase	Amortization	Ending
Goodwill	(Won) 378,669	(Won)	(Won) 78,345	(Won) 300,324
Others	19,435	75,199	23,646	70,988
	(Won) 398,104	(Won) 75,199	(Won) 101,991	(Won) 371,312

(8) Non-business use properties as of December 31, 2006 consisted of (Unit: In millions):

	Acquisition cost	Valuation allowance	Book value
Non-business use land	(Won) 18	(Won) 12	(Won) 6
Non-business use building	481	157	324
	(Won) 499	(Won) 169	(Won) 330

9. OTHER ASSETS:

(1) Other assets as of December 31, 2006 and 2005 consisted of (Unit: In millions):

2006

2005

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Guarantee deposits paid	(Won) 1,166,454	(Won) 1,164,533
Accounts receivable	2,172,569	466,442
Accrued income	1,166,963	998,354
Prepaid accounts	114,684	65,519
Prepaid expenses	79,862	43,266
Deferred income tax assets (Note 24)	23,886	353,214
Derivatives assets	1,260,748	1,202,063
Domestic exchange settlement debits	962,250	720,433
Sundry assets	33,935	34,502
Allowances for possible loan losses	(102,212)	(47,502)
	(Won) 6,879,139	(Won) 5,000,824

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(2) Sundry assets as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Receivables on cash sent to other banks	(Won) 410	(Won) 350
Supplies	18,608	14,468
Deposit money to court (*)	14,883	19,514
Others	34	170
	(Won) 33,935	(Won) 34,502

(\*) Securities is included in deposit money to court of which book value, face value and fair value are (Won)9,691 million, (Won) 10,250 million and (Won)12,017 million, respectively.

10. DEPOSITS:

(1) Deposits as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Deposits in Won	(Won) 119,012,658	(Won) 119,512,556
Deposits in foreign currencies	1,427,557	1,379,133
Negotiable certificates of deposits	9,579,701	5,389,543
	(Won) 130,019,916	(Won) 126,281,232

(2) Deposits as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
<b>Demand deposits in Won:</b>		
Checking deposits	(Won) 231,953	(Won) 190,629
Household checking deposits	477,770	478,851
Temporary deposits	4,066,769	3,668,420
Passbook deposits	15,176,852	13,403,993
Public fund deposits	199,948	176,397
National Treasury deposits	2,641	2,879
Nonresident s deposit in Won	23,636	24,898
	20,179,569	17,946,067
<b>Time deposits and savings deposits in Won:</b>		
Time deposits	57,138,595	57,387,089
Installment savings deposits	1,097,474	1,218,956
Property formation savings	541	955
Workers savings for housing	2	27
Time and savings deposits of non residents in Won	193,344	213,436
General savings deposits	20,826,726	20,151,013
Corporate savings deposits	8,302,352	9,391,238
Long-term savings deposits for workers	4,334	7,388
Long-term housing savings deposits	3,057,236	2,390,596
Long-term savings for households	3,711	7,377
Workers preferential savings deposits	530,867	1,097,848

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Mutual installment deposits	3,833,573	5,120,668
Mutual installment for housing	3,842,727	4,582,031
	98,831,482	101,568,622
	119,011,051	119,514,689
Loss (gain) on valuation of fair value hedged item (current year portion)	3,740	(2,133)
Loss (gain) on valuation of fair value hedged item (prior year portion)	(2,133)	
	119,012,658	119,512,556

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<b>Demand deposits in foreign currencies:</b>			
Checking deposits	(Won)	43,875	(Won) 51,185
Passbook deposits		736,034	701,514
Notice deposits		199	241
Temporary deposits		2,377	1,300
		782,485	754,240
<b>Time deposits and savings deposits in foreign currencies:</b>			
Time deposits		643,404	622,887
Installment savings deposits		620	643
Others		1,048	1,363
		645,072	624,893
		1,427,557	1,379,133
Negotiable certificates of deposits		9,579,701	5,389,543
	(Won)	130,019,916	(Won) 126,281,232

(3) Deposits with financial institutions as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	Financial institutions	2006		2005	
		(Won)		(Won)	
Deposits in Won	Banks	555,822		1,023,544	
	Others	3,025,005		5,201,307	
		3,580,827		6,224,851	
Deposits in foreign currencies	Banks	74,668		84,972	
	Others	43,230		27,171	
		117,898		112,143	
Negotiable certificates of deposits	Banks	3,935			
	Others	6,304,672		1,531,287	
		6,308,607		1,531,287	
		(Won) 10,007,332		(Won) 7,868,281	

(4) Term structure of deposits as of December 31, 2006 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
	Deposits in Won	(Won) 72,776,585	(Won) 9,027,056	(Won) 27,035,971	(Won) 6,954,368	(Won) 3,218,678

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Deposits in foreign currencies	1,239,409	150,677	33,688	3,783	1,427,557
Negotiable certificate of deposits	5,996,076	2,526,968	1,056,503	154	9,579,701

(Won) 80,012,070 (Won) 11,704,701 (Won) 28,126,162 (Won) 6,958,305 (Won) 3,218,678 (Won) 130,019,916

Term structure of deposits as of December 31, 2005 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Deposits in Won	(Won) 72,722,858	(Won) 11,074,041	(Won) 25,280,674	(Won) 7,752,630	(Won) 2,682,353	(Won) 119,512,556
Deposits in foreign currencies	1,189,235	146,190	37,613	6,095		1,379,133
Negotiable certificate of deposits	2,346,463	2,351,554	690,927	599		5,389,543

(Won) 76,258,556 (Won) 13,571,785 (Won) 26,009,214 (Won) 7,759,324 (Won) 2,682,353 (Won) 126,281,232

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11. **BORROWINGS:**

(1) Borrowings as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	<b>2006</b>	<b>2005</b>
Borrowings in Won	(Won) 2,502,479	(Won) 2,608,515
Borrowings in foreign currencies	3,876,379	3,186,803
Bonds sold under repurchase agreements	7,053,755	6,384,308
Bills sold	462,479	296,722
Due to BOK in foreign currencies		542
Call money	165,086	1,260,446
	(Won) 14,060,178	(Won) 13,737,336

(2) Borrowings in Won as of December 31, 2006 and 2005 consisted of (Unit: In millions):

<b>Account</b>	<b>Financial institution</b>	<b>Annual interest rate (%)</b>	<b>2006</b>	<b>2005</b>
Borrowings from the BOK	BOK	2.75	(Won) 681,965	(Won) 646,308
Borrowings from the Korean government	Ministry of Finance and Economy, and others	0.00 ~ 6.50	557,789	636,948
Borrowings from banking institutions	Industrial Bank of Korea	3.40 ~ 4.25	76,646	115,437
Borrowings from National Housing Fund	National Housing Fund	8.00	1,222	2,004
Borrowings from non-banking financial institutions	Korea Development Bank	2.00 ~ 4.00	4,380	4,353
Other borrowings	Small Business Corporation and others	1.20 ~ 5.10	1,180,477	1,203,465
			(Won) 2,502,479	(Won) 2,608,515

(3) Borrowings in foreign currencies as of December 31, 2006 and 2005 consisted of (Unit: In millions):

<b>Account</b>	<b>Financial institution</b>	<b>Annual interest rates (%)</b>	<b>2006</b>	<b>2005</b>
Due to banks	ABN Amro Bank N.V and others		(Won) 56,320	(Won) 42,954
Borrowings from banking institutions	Barclays PLC HK and others	0.50 ~ 5.89	2,807,267	1,857,330
Off-shore borrowings in foreign currencies	United Overseas Bank NY IBF and others	5.30 ~ 5.99	152,308	401,197
Other borrowings from banking institutions	IBRD	6.11	6,845	10,466
Other borrowings in foreign currencies	Financial institution and others		853,639	874,856
			(Won) 3,876,379	(Won) 3,186,803



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- (4) Bonds sold under repurchase agreements, bills sold and due to BOK in foreign currencies as of December 31, 2006 and 2005 consisted of the following (Unit: In millions):

Account	Financial institution	Annual interest rates (%)	2006	2005
Bonds sold under repurchase agreements in Won	Person, group & corporations	3.40 ~ 5.13	(Won) 7,053,755	(Won) 6,384,308
Bills sold	Teller s Sales	3.09 ~ 4.86	462,479	296,722
Due to the Bank of Korea in foreign currencies	BOK			542
			(Won) 7,516,234	(Won) 6,681,572

- (5) Call money as of December 31, 2006 and 2005 consisted of (Unit: In millions):

Account	Financial institution	Annual interest rates (%)	2006	2005
Won	Deutsche Investment Trust Management Company Ltd. and Others	4.15 ~ 4.55	(Won) 117,700	(Won) 984,100
Foreign currencies	Banca Nazionale del Lavoro and others	5.31 ~ 7.60	47,386	276,346
			(Won) 165,086	(Won) 1,260,446

- (6) Borrowings in Won, borrowings in foreign currencies and others with financial institutions as of December 31, 2006 were as follows (Unit: In millions):

	Won	Foreign currencies	Due to BOK & call money	Total
BOK	(Won) 681,965	(Won)	(Won)	(Won) 681,965
Banks	76,646	3,829,469	57,386	3,963,501
Others	4,380	46,910	107,700	158,990
	(Won) 762,991	(Won) 3,876,379	(Won) 165,086	(Won) 4,804,456

- Borrowings in Won, borrowings in foreign currencies and others with financial institutions as of December 31, 2005 were as follows (Unit: In millions):

	Won	Foreign currencies	Due to BOK & call money	Total
BOK	(Won) 646,308	(Won)	(Won) 542	(Won) 646,850
Banks	115,437	3,117,958	276,346	3,509,741
Others	4,353	68,792	984,100	1,057,245
	(Won) 766,098	(Won) 3,186,750	(Won) 1,260,988	(Won) 5,213,836



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(7) Term structure of borrowings as of December 31, 2006 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Borrowings in Won	(Won) 744,542	(Won) 66,632	(Won) 153,392	(Won) 685,493	(Won) 852,420	(Won) 2,502,479
Borrowings in foreign currencies	1,410,963	1,365,518	541,590	539,974	18,334	3,876,379
Bonds sold under repurchase agreements	4,589,657	1,250,944	1,212,944	210		7,053,755
Bills sold	311,187	63,269	88,023			462,479
Call money	165,086					165,086
	(Won) 7,221,435	(Won) 2,746,363	(Won) 1,995,949	(Won) 1,225,677	(Won) 870,754	(Won) 14,060,178

Term structure of borrowings as of December 31, 2005 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Borrowings in Won	(Won) 711,978	(Won) 71,183	(Won) 151,966	(Won) 712,198	(Won) 961,190	(Won) 2,608,515
Borrowings in foreign currencies	1,369,440	1,009,506	463,420	315,981	28,456	3,186,803
Bonds sold under repurchase agreements	3,391,564	1,415,535	1,562,596	14,613		6,384,308
Bills sold	89,094	207,482	146			296,722
Due to the BOK in foreign currencies	426	116				542
Call money	1,260,446					1,260,446
	(Won) 6,822,948	(Won) 2,703,822	(Won) 2,178,128	(Won) 1,042,792	(Won) 989,646	(Won) 13,737,336

12. DEBENTURES:

(1) Debentures as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Debentures in Won	(Won) 22,709,838	(Won) 15,528,273
Less: Discount on debentures	(158,575)	(35,368)
Debentures in foreign currencies	2,430,834	1,051,990
Addition: Premiums on debentures	409	3,092

(Won) 24,982,506

(Won) 16,547,987



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(2) Debentures in Won as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	Annual interest rate (%)	2006	2005
Hybrid debentures	6.00 ~ 7.00	(Won) 903,668	(Won) 903,668
Structured debentures	4.29 ~ 8.62	1,587,701	208,131
Subordinated fixed rate debentures in Won	4.19 ~ 15.02	6,670,799	5,794,072
KCC subordinated fixed rate debentures	7.10 ~ 8.00	205,000	205,000
KCC fixed rate debentures	5.54 ~ 5.87	200,000	390,000
Fixed rate debentures	3.14 ~ 6.16	13,198,004	8,068,146
		22,765,172	15,569,017

	Annual interest rate (%)	2006	2005
Loss (gain) on valuation of fair value hedged items (current year portion)		(14,544)	(44,494)
Loss (gain) on valuation of fair value hedged items (prior year portion)(*)		(40,790)	3,750
		22,709,838	15,528,273
Discounts on debentures		(158,575)	(35,368)
		(Won) 22,551,263	(Won) 15,492,905

(\*1) The gains on prior redemption of debentures were (Won)46 million.

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(3) Hybrid debentures and subordinated debentures as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	Issued date	Expiration date	Annual interest rate (%)	2006	2005
Subordinated fixed rate debentures in Won	Feb-98 ~ Dec-00	Feb-03 ~ Feb-06		(Won) 13,401	(Won) 1,009,529
	Nov-98	Nov-09	15.02	76,900	104,900
	Nov-00	Nov-10 ~ Dec-10	9.57 ~ 9.65	162,051	162,051
	May-01	Feb-07	7.60 ~ 7.65	200,000	200,000
	Jun-01	Mar-08 ~ Mar-09	7.68 ~ 7.86	377,529	377,529
	Aug-01	Aug-07	6.69 ~ 6.73	100,000	100,000
	Sep-01	Mar-08	6.69 ~ 6.73	150,000	150,000
	Mar-02	Jan-08	7.06 ~ 7.10	241,684	241,684
	Jul-02	Jan-08	6.96 ~ 7.00	302,399	302,399
	Sep-02	Mar-08 ~ Mar-13	6.27 ~ 6.70	500,000	500,000
	Nov-02	May-08 ~ May-13	6.07 ~ 6.55	558,775	558,775
	Dec-02	Jan-08	8.00	110,000	110,000
	Dec-02	Jun-08 ~ Dec-14	6.20 ~ 6.65	180,370	180,370
	Jan-03	Feb-08	7.65	50,000	50,000
	Mar-03	Apr-08	7.10	45,000	45,000
	Oct-03	Jan-09 ~ Jan-14	5.18 ~ 5.60	449,051	449,051
	Feb-04	Aug-09 ~ Aug-14	5.65 ~ 6.16	700,000	700,000
	Sep-04	Dec-18	5.12	57,784	57,784
	Dec-04	Jun-10	4.19 ~ 4.20	700,000	700,000
	Mar-06	Jan-12	5.67 ~ 5.70	1,900,855	
				6,875,799	5,999,072
Hybrid debentures	Jun-03	Jun-33	6.00	105,145	105,145
	Aug-03	Aug-33	7.00	533,355	533,355
	Oct-03	Oct-33	6.80	265,168	265,168
				903,668	903,668
				(Won) 7,779,467	(Won) 6,902,740

(4) Debentures in foreign currencies as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	Annual interest rate (%)	2006	2005
Floating rates debentures	0.51 ~ 6.12	(Won) 1,964,851	(Won) 550,365
Fixed rates debentures	2.37 ~ 4.63	475,099	517,234
		2,439,950	1,067,599
Loss (gain) on valuation of fair value hedged items (current year portion)		6,493	(8,181)
Gain on valuation of fair value hedged items (prior year portion)		(15,609)	(7,428)
		2,430,834	1,051,990
Premiums on debentures		1,771	4,076
Discounts on debentures		(1,362)	(984)
		(Won) 2,431,243	(Won) 1,055,082

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(5) Term structure of debentures as of December 31, 2006 was as follows (Unit: In millions):

	<b>Due in 3 months or less</b>	<b>Due after 3 months through 6 months</b>	<b>Due after 6 months through 1 year</b>	<b>Due after 1 year through 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Debentures in Won	(Won) 2,019,839	(Won) 864,045	(Won) 5,685,281	(Won) 8,240,751	(Won) 5,899,922	(Won) 22,709,838
Debentures in foreign currencies	226,301	305,385	624,016	488,674	786,458	2,430,834
	(Won) 2,246,140	(Won) 1,169,430	(Won) 6,309,297	(Won) 8,729,425	(Won) 6,686,380	(Won) 25,140,672

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Term structure of debentures as of December 31, 2005 was as follows (Unit: In millions):

	Due in 3 months or less	Due after 3 months through 6 months	Due after 6 months through 1 year	Due after 1 year through 3 years	More than 3 years	Total
Debentures in Won	(Won) 1,825,117	(Won) 2,924,111	(Won) 3,532,030	(Won) 3,215,630	(Won) 4,031,385	(Won) 15,528,273
Debentures in foreign currencies	20,381	48,994	42,995	593,743	345,877	1,051,990
	(Won) 1,845,498	(Won) 2,973,105	(Won) 3,575,025	(Won) 3,809,373	(Won) 4,377,262	(Won) 16,580,263

13. OTHER LIABILITIES:

Other liabilities as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Accrued severance benefits (Note 15)	(Won) 536,347	(Won) 387,491
Less: Severance insurance deposits (Note 15)	(334,979)	(236,529)
Allowance for possible losses on acceptances and guarantees (Note 14)	18,772	10,141
Due to trust accounts	1,281,185	1,059,469
Guarantees deposits received	99,325	109,454
Accounts payable	2,357,841	834,510
Accrued expenses	4,106,604	4,872,756
Advances from customers	190,575	360,766
Unearned revenues	87,556	79,652
Withholding taxes	114,630	83,262
Accounts for agency business	151,479	110,982
Domestic exchange settlement loans	141,042	538,799
Derivatives liabilities	1,148,033	1,070,996
Agency	171,024	272,838
Sundry liabilities (Note 16)	1,019,490	1,098,907
	(Won) 11,088,924	(Won) 10,653,494

14. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:

(1) Acceptances and guarantees as of December 31, 2006 and 2005 were as follows (Unit: In millions):

Types	2006	2005
Confirmed acceptances and guarantees in Won:		
Payment guarantee for issuance of debentures	(Won) 1,150	(Won) 768
Payment guarantee for loans	53,237	34,527
Others	894,893	352,946
	949,280	388,241

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Confirmed acceptances and guarantees in foreign currencies:

Acceptances on letters of credit	93,017	86,170
Acceptances for letters of guarantee for importers	56,089	68,272
Guarantees for performance of contracts	76,385	68,692
Guarantees for bids	4,082	4,004
Guarantees for borrowings	36,128	48,091
Guarantees for repayment of advances	1,101,403	761,489
Others	387,923	364,601
	1,755,027	1,401,319
	2,704,307	1,789,560

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Types	2006	2005
Unconfirmed acceptances and guarantees:		
Letters of credit	(Won) 1,266,858	(Won) 1,092,825
Others	1,037,576	879,367
	2,304,434	1,972,192
Bills endorsed	4,540	10,910
	(Won) 5,013,281	(Won) 3,772,662

(2) Acceptances and guarantees, by customer, as of December 31, 2006 were as follows (Unit: In millions):

By customer	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
Large corporations	(Won) 1,841,739	(Won) 1,586,005	(Won) 1,213	(Won) 3,428,957	68.40
Small and medium corporations	522,820	676,432	3,247	1,202,499	23.99
Public sector and others	339,748	41,997	80	381,825	7.61
	(Won) 2,704,307	(Won) 2,304,434	(Won) 4,540	(Won) 5,013,281	100.00

Acceptances and guarantees, by customer, as of December 31, 2005 were as follows (Unit: In millions):

By customer	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
Large corporations	(Won) 1,053,190	(Won) 1,359,261	(Won) 470	(Won) 2,412,921	63.96
Small and medium corporations	435,137	570,457	10,140	1,015,734	26.92
Public sector and others	301,233	42,474	300	344,007	9.12
	(Won) 1,789,560	(Won) 1,972,192	(Won) 10,910	(Won) 3,772,662	100.00

(3) Acceptances and guarantees, by industry, as of December 31, 2006 were as follows (Unit: In millions):

By industry	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
Public sector	(Won) 68	(Won) 78,563	(Won)	(Won) 78,631	1.57
Finance	343,714			343,714	6.86
Service	393,552	39,330		432,882	8.63
Manufacturing	1,593,449	1,723,450	2,623	3,319,522	66.21
Others	373,524	463,091	1,917	838,532	16.73
	(Won) 2,704,307	(Won) 2,304,434	(Won) 4,540	(Won) 5,013,281	100.00

Acceptances and guarantees, by industry, as of December 31, 2005 were as follows (Unit: In millions):

By industry	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
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Public sector	(Won) 167	(Won) 69,410	(Won)	(Won) 69,577	1.84
Finance	426,695	9,479		436,174	11.56
Service	99,072	36,200		135,272	3.59
Manufacturing	954,209	1,277,050	6,350	2,237,609	59.31
Others	309,417	580,053	4,560	894,030	23.70
	(Won) 1,789,560	(Won) 1,972,192	(Won) 10,910	(Won) 3,772,662	100.00

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(4) Acceptances and guarantees, by country, as of December 31, 2006 were as follows (Unit: In millions):

By country	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
Korea	(Won) 2,453,216	(Won) 2,304,434	(Won) 4,540	(Won) 4,762,190	94.99
Japan	63			63	0.00
Others	251,028			251,028	5.01
	(Won) 2,704,307	(Won) 2,304,434	(Won) 4,540	(Won) 5,013,281	100.00



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Acceptances and guarantees, by country, as of December 31, 2005 were as follows (Unit: In millions):

By country	Confirmed	Unconfirmed	Bills endorsed	Total	Percentage (%)
Korea	(Won) 1,455,270	(Won) 1,972,113	(Won) 10,910	(Won) 3,438,293	91.14
France	293,770			293,770	7.79
USA	40,520			40,520	1.07
Others		79		79	0.00
	(Won) 1,789,560	(Won) 1,972,192	(Won) 10,910	(Won) 3,772,662	100.00

(5) Allowance for possible losses on acceptances and guarantees and others as of December 31, 2006 was as follows (Unit: In millions):

	Confirmed acceptances and guarantees		Unconfirmed acceptances and guarantees	Bills endorsed	Total
	Won	Foreign currencies			
Normal	(Won) 946,453	(Won) 1,746,240	(Won) 2,283,303	(Won) 4,295	(Won) 4,980,291
Precautionary	2,446	3,186	7,490		13,122
Substandard	30	5,586	7,244	40	12,900
Doubtful	350		434	205	989
Estimated loss	1	15	5,963		5,979
	(Won) 949,280	(Won) 1,755,027	(Won) 2,304,434	(Won) 4,540	(Won) 5,013,281
Allowance for possible losses	(Won) 3,650	(Won) 7,613	(Won) 7,268	(Won) 241	(Won) 18,772
Ratio (%)	0.38	0.43	0.32	5.31	0.37

Allowance for possible losses on acceptances and guarantees and others as of December 31, 2005 were as follows (Unit: In millions):

	Confirmed acceptances and guarantees		Unconfirmed acceptances and guarantees	Bills endorsed	Total
	Won	Foreign currencies			
Normal	(Won) 382,574	(Won) 1,387,575	(Won) 1,943,043	(Won) 10,572	(Won) 3,723,764
Precautionary	3,658	11,335	12,573	299	27,865
Substandard	50	2,194	8,445		10,689
Doubtful	1,888	209	1,198	39	3,334
Estimated loss	71	6	6,933		7,010
	(Won) 388,241	(Won) 1,401,319	(Won) 1,972,192	(Won) 10,910	(Won) 3,772,662
Allowance for possible losses	(Won) 1,395	(Won) 3,640	(Won) 5,028	(Won) 78	(Won) 10,141
Ratio (%)	0.36	0.26	0.25	0.71	0.27

(6) The percentage of allowance for possible losses on acceptances and guarantees and others as of December 31, 2006, 2005 and 2004 was as follows (Unit: In millions):

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	<b>Guarantees and acceptances and others</b>	<b>Allowance</b>	<b>Percentage (%)</b>
December 31, 2006 (*)	(Won) 5,013,281	(Won) 18,772	0.37
December 31, 2005 (*)	3,772,662	10,141	0.27
December 31, 2004	975,788	1,150	0.12

(\*) Pursuant to the amended Supervisory Regulation of Banking Business, the Bank has extended the scope of allowance for possible losses since 2005. Furthermore, the minimum rate of loss provision increased for confirmed and unconfirmed acceptances and guarantees and notes endorsed classified as normal and precautionary as of December 31, 2006. Due to the change, the allowance for possible losses on acceptances and guarantees increased by (Won)4.3 billion as of December 31, 2006.

15. ACCRUED SEVERANCE BENEFITS:

The changes in accrued severance benefits for the year ended December 31, 2006 were as follows (Unit: In millions):

	Beginning	Provision	Payment	Other changes(*)	Ending
Accrued severance benefits	(Won) 387,491	(Won) 165,533	(Won) 16,664	(Won) (13)	(Won) 536,347
Severance insurance deposits	(236,529)	(100,218)	(1,768)		(334,979)
	(Won) 150,962	(Won) 65,315	(Won) 14,896	(Won) (13)	(Won) 201,368

(\*) Gain on foreign currency translation of the accrued severance benefit of the Tokyo branch office.

As of December 31, 2006, part of severance benefits was contributed to pension funds of Kyobo Life Insurance Co., Ltd. and others in which the beneficiary is a respective employee.

16. SUNDRY LIABILITIES:

(1) Sundry liabilities as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Borrowings for others business	(Won) 94,769	(Won) 128,567
Foreign currency bills payable	54,515	38,645
Prepaid card and debit card liabilities	20,947	8,540
Subscription deposits	71,665	45,904
Other allowances	776,661	875,835
Others	933	1,416
	(Won) 1,019,490	(Won) 1,098,907

(2) Other allowances as of December 31, 2006 and 2005 consisted of (Unit: In millions):

	2006	2005
Loss on branch closure	(Won) 140	(Won) 167
Mileage rewards	89,025	85,876
KAMCO loans sold (Note 19)	252	241
Credit commitments to SPC (Note 19)	3,602	384,724
KP Chemical loans sold	4,605	4,029
Dormant accounts	27,689	27,035
Unused credit limit	566,655	342,281
Others	84,693	31,482
	(Won) 776,661	(Won) 875,835

The unused credit limit for other allowances amounts to (Won) 76,832,125 million as of December 31, 2006. Pursuant to the amended Supervisory Regulation, the Bank extended the scope of other allowances for the unused credit limit of credit card to the extent of the unused credit line of card holders with no record of credit card transaction for the past 1 year, and increased the minimum rate of loss provision for unused credit limit classified as normal and precautionary in 2006. Due to the changes, other allowances for unused credit limit increased by

(Won)227.9 billion as of December 31, 2006.

17. SHAREHOLDERS EQUITY:

- (1) Capital stock

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As of December 31, 2006 and 2005, the Bank has 1 billion common shares authorized with a par value per share of (Won)5,000 and 336,379,116 shares((Won) 1,681,896 million) issued. The Bank's major shareholders were Euro-Pacific Growth Fund (18,377,910 shares, 5.46 percent) and ING Bank N.V. Amsterdam (13,650,001 shares, 4.06 percent) as of December 31, 2006.

As a result of the legal consolidation with H&CB, the registered shareholders of both the Bank and H&CB, as of October 31, 2001, received 179,775,233 shares and 119,922,229 shares, respectively. The new shares were distributed based on an exchange ratio of one new Bank share each for 1.688346 old Bank shares and one new Bank share for one H&CB share. The new shares were listed on the Korea Stock Exchange on November 9, 2001. Furthermore, as a result of the merger with Kookmin Credit Co., Ltd., the Bank issued 8,120,431 shares.

Under the General Banking Act, if a single entity, other than the government or a foreign investor, owns more than 4 percent of total outstanding voting shares, that entity's voting rights are limited to 4 percent shareholding.

### (2) Capital surplus

The capital surplus as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006	2005
Paid-in-capital in excess of par value	(Won) 5,655,840	(Won) 5,655,840
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Gain on disposal of treasury stock	27,559	24,048
	(Won) 6,258,297	(Won) 6,254,786

The gain on business combination was due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998.

### (3) Retained earnings

1) Retained earnings as of December 31, 2006 and 2005 are summarized as follows (Unit: In millions):

	2006	2005
Legal reserve	(Won) 826,640	(Won) 601,340
Reserve for financial structure improvement	55,600	55,600
Voluntary reserve	2,499,200	852,700
Other reserve	363,194	362,862
Retained earnings before appropriations	2,470,588	2,057,446
	(Won) 6,215,222	(Won) 3,929,948

#### 2) Legal reserve

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.

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### 3) Reserve for financial structure improvement (voluntary reserve)

In 2002, the Finance Supervisory Service recommended banks to appropriate at least 10 percent of net income after accumulated deficit to reserve for financial structure improvement, until simple capital ratio equals 5.5 percent. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

### 4) Retained earnings appropriated for accumulated deficit

The Bank appropriated voluntary reserve amounting to (Won)754,900 million to offset accumulated deficit, pursuant to the approval at the shareholders meeting on March 23, 2004.

(4) Capital adjustments

1) Capital adjustments as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006	2005
Treasury stock	(Won) (9,660)	(Won) (9,660)
Gain on valuation of available-for-sale securities	883,556	511,368
Gain on valuation of held-to-maturity securities	98	426
Gain on valuation of securities using the equity method	22,039	13,282
Loss on valuation of securities using the equity method	(6,151)	(12,334)
Stock options		3,888
	(Won) 899,542	(Won) 506,970

2) The changes of capital adjustments for the year ended December 31, 2006 were as follows (Unit: In millions):

	Beginning balance	Changes	Disposal or realization	Ending balance
Treasury stock	(Won) (9,660)	(Won)	(Won) 9,660	(Won)
Gain on valuation of available-for-sale securities	511,368	477,839	(105,651)	883,556
Gain on valuation of held-to-maturity securities	426		(328)	98
Change due to the equity method	948	15,522	(582)	15,888
Stock options	3,888		(3,888)	
	(Won) 506,970	(Won) 493,361	(Won) (100,789)	(Won) 899,542

(5) Dividends

The calculation of dividends for the years ended December 31, 2006 and 2005 was as follows:

	2006	2005
Issued stocks (shares)	336,379,116	336,379,116
Treasury stock (shares)		217,935
Dividend stocks (shares)	336,379,116	336,161,181
Dividend rate (%)	73.00	11.00
The amount of dividend (Won in million)	1,227,784	184,889
Dividend propensity (%)	49.67	8.21
Dividend yield ratio (%)	4.87	0.72

18. STOCK OPTIONS:

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- (1) The Bank granted stock options to executives including the president several times. 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. In accordance with the resolution of the Board of Directors on August 23, 2005, the Bank has changed the settlement method from granting the treasury stock to paying cash equivalent to the difference between the market price and the exercise price only after the remaining treasury stock is exhausted. Accordingly, stock options against 217,935 shares of treasury stock, which the Bank owned as of December 31, 2005, were recorded using the fair value method accounting, and the other stock options were recorded using intrinsic value method accounting. Stock options that are settled through the issuance of shares were entirely exercised in 2006, and the remaining stock options as of December 31, 2006 are entirely those that are settled through payment of cash equivalent to the difference between the market price and the exercise price.



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The details of the stock options as of December 31, 2006 were as follows:

	Grant date	Granted shares				Outstanding	Exercise price	Exercise period
		Granted	Forfeited	Exercised				
Series 2	01.03.15	214,975	16,882	109,986	88,107	(Won) 28,027	04.03.16 ~ 09.03.15	
Series 4	00.02.28	267,000	65,218	201,782		27,600	03.03.01 ~ 06.02.28	
Series 6	01.03.24	111,000	38,624	63,743	8,633	25,100	04.03.25 ~ 07.03.24	
Series 7	01.11.16	850,000	200,000	500,000	150,000	51,200	04.11.17 ~ 09.11.16	
Series 8-1 (*2)	02.03.22	132,000	89,753	13,384	28,863	57,100	05.03.23 ~ 10.03.22	
Series 8-2 (*3)	02.03.22	490,000	180,691	45,744	263,565	57,100	05.03.23 ~ 10.03.22	
Series 9 (*3)	02.07.26	30,000	6,101		23,899	58,800	05.07.27 ~ 10.07.26	
Series 10-1(*2)	03.03.21	140,000	76,557	20,029	43,414	46,962	06.03.22 ~ 11.03.21	
Series 10-2 (*3)	03.03.21	180,000	91,097	17,910	70,993	35,500	06.03.22 ~ 11.03.21	
Series 11(*3)	03.08.27	30,000	24,909		5,091	40,500	06.08.28 ~ 11.08.27	
Series 12 (*3)	04.02.09	85,000	9,461		75,539	46,100	07.02.10 ~ 12.02.09	
Series 13-1(*2)	04.03.23	20,000			20,000	48,650	07.03.24 ~ 12.03.23	
Series 13-2 (*3)	04.03.23	10,000			10,000	47,200	07.03.24 ~ 12.03.23	
Series 14 (*2, 3)	04.11.01	700,000			700,000	51,000	07.11.02 ~ 12.11.01	
Series 15-1(*2)	05.03.18	165,000	29,741		135,259	59,288	08.03.19 ~ 13.03.18	
Series 15-2 (*3)	05.03.18	765,000	184,931		580,069	46,800	08.03.19 ~ 13.03.18	
Series 16 (*3)	05.04.27	15,000			15,000	45,700	08.04.28 ~ 13.04.27	
Series 17 (*3)	05.07.22	30,000			30,000	49,200	08.07.23 ~ 13.07.22	
Series 18 (*3)	05.08.23	15,000			15,000	53,000	08.08.24 ~ 13.08.23	
Series 19 (*1)	06.03.24	940,000			940,000	80,900	09.03.25 ~ 14.03.24	
Series 20 (*1)	06.04.28	30,000			30,000	84,600	09.04.29 ~ 14.04.28	
Series 21 (*1)	06.10.27	20,000			20,000	79,000	09.10.28 ~ 14.10.27	
Kookmin Credit Card-1 (*4)	01.03.22	22,146			22,146	71,538	04.03.23 ~ 11.03.22	
Kookmin Credit Card -2 (*2, 4)	02.03.29	9,990			9,990	129,100	04.03.30 ~ 11.03.29	
		5,272,111	1,013,965	972,578	3,285,568			

- (\*1) The exercise price is adjusted by the rate of increase of the market value of the major competitors as of December 31, 2006.  
 (\*2) The exercise price is adjusted by the rate of increase of the average stock price index of the banking industry as of December 31, 2006.  
 (\*3) As the actual number of exercisable granted shares is determined in accordance with the management performance for the contract period of service, the number of granted shares used for the calculation of compensation cost is computed based on the assumption that the performance result falls into the highest level in the bracket.  
 (\*4) The Bank took over the stock options granted by Kookmin Credit Card Co., Ltd. of which the exercise price and number of shares were adjusted in proportion to the merger ratio.

(2) The compensation costs as of December 31, 2006 were as follows (Unit: In millions):

	Amount
Total compensation cost of stock options	(Won) 53,964
Reflected compensation cost	42,754
Compensation cost to be reflected	(Won) 11,210

The Bank recognized (Won)13,232 million of compensation cost for the year ended December 31, 2006.

19. CONTINGENCIES AND COMMITMENTS:

- (1) The Bank holds written-off loans, of which the claim for borrowers and guarantors have not been terminated , amounting to (Won)12,005,064 million and (Won)7,743,273 million as of December 31, 2006 and 2005, respectively.
- (2) As of December 31, 2006, the Bank has entered into commitments to provide credit line of (Won)1,158,800 million and to purchase commercial papers amounting to (Won)1,224,200 million with several special purpose companies. Under these commitments, the Bank extended (Won)12,497 million of loans to the companies and recognized (Won)3,602 million of expected loss as other allowance. The Bank has no balance of commitment to purchase commercial papers as of December 31, 2006. In addition, the Bank has entered into commitment amounting to (Won)545,908 million to provide foreign currency loans as of December 31, 2006 and under these commitments, the balance of loans amounts to (Won)181,180 million.
- (3) The Bank entered into the business cooperation agreements with Citibank and Nonghyup regarding the credit card business. Accordingly, the Bank shares the related revenue from such business operation.
- (4) As of December 31, 2006, the Bank has provided allowances of (Won)252 million for losses in relation to the possible future repurchase of loans, which the Bank sold to Korea Asset Management Corporation ( KAMCO ) for (Won)666 million.
- (5) As of December 31, 2006 and 2005, the Bank recorded receivables amounting to (Won)1,900,684 million and (Won)383,838 million, respectively, and payables amounting to (Won)1,900,506 million and (Won)383,550 million for unsettled foreign currency spot transactions, respectively.
- (6) The Bank filed 120 lawsuits involving aggregate claims of (Won)323,145 million and faces 177 lawsuits involving aggregate damages of (Won)513,468 million, which arose in the normal course of the business and are still pending as of December 31, 2006. The management believes that the ultimate liability, if any, will not materially affect the Bank's financial position. In January 2007, Korea Lottery Service Inc. filed a lawsuit against the Bank with aggregate damages of (Won)445,877 million regarding commitment fee; however, the management believes that the lawsuit will not affect the financial position of the Bank as it is related to a lottery fund.
- (7) The face value of the consumer investment securities amounts to (Won)217,754 million as of December 31, 2006.
- (8) Financial derivatives  
The notional amounts outstanding for derivative contracts as of December 31, 2006 and 2005 were as follows (Unit: In millions):

Type	2006			2005		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest rate:						
Interest rate forwards	(Won) 92,960	(Won) 92,960	(Won) 92,960	(Won) 303,250	(Won) 303,250	(Won) 303,250
Interest rate futures	1,470,054		1,470,054	695,443		695,443
Interest rate swaps	42,563,389	3,718,967	46,282,356	33,487,799	1,581,097	35,068,896
Interest rate options purchased	110,000		110,000	300,650		300,650
Interest rate options sold	300,000		300,000	640,650		640,650
	44,536,403	3,718,967	48,255,370	35,427,792	1,581,097	37,008,889

Currency:

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Currency forwards	80,949,167		80,949,167	58,354,822		58,354,822
Currency futures	3,237,813		3,237,813	2,419,652		2,419,652
Currency swaps	7,888,681	-	7,888,681	4,796,740	-	4,796,740
Currency options purchased	518,421		518,421	119,345		119,345
Currency options sold	348,144		348,144	73,056		73,056
	92,942,226		92,942,226	65,763,615		65,763,615
<b>Stock:</b>						
Stock index futures	(Won) 187,454	(Won)	(Won) 187,454	(Won) 13,567	(Won)	(Won) 13,567
Stock options purchased	723,790		723,790	2,746,364		2,746,364
Stock options sold	987,929		987,929	2,754,603		2,754,603
Stock swaps	8,008		8,008			
	1,907,181		1,907,181	5,514,534		5,514,534
<b>Other:</b>						
Gold index options purchased				146,268		146,268
Gold index options sold				146,268		146,268
				292,536		292,536
	(Won) 139,385,810	(Won) 3,718,967	(Won) 143,104,777	(Won) 106,998,477	(Won) 1,581,097	(Won) 108,579,574

(\*) 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.

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The details of financial derivatives as of December 31, 2006 and the valuation of financial derivatives for the year ended December 31, 2006 were as follows (Unit: In millions):

Type	Gain on valuation (P/L)			Loss on valuation (P/L)			Gain (loss) on valuation(B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Assets	Liabilities
<b>Interest rate:</b>								
Interest rate forwards	(Won) 9	(Won) 9	(Won) 9	(Won) 9	(Won) 9	(Won) 9	(Won) 9	(Won) 9
Interest rate swaps	118,137	31,517	149,654	178,630	35,828	214,458	174,514	217,850
Interest rate options purchased	856		856	604		604	2,261	
Interest rate options sold	1,086		1,086	30		30		675
	120,088	31,517	151,605	179,264	35,828	215,092	176,784	218,525
<b>Currency:</b>								
Currency forwards	529,587		529,587	651,898		651,898	537,474	667,386
Currency swaps	233,340		233,340	128,390		128,390	427,425	210,503
Currency options purchased	1,756		1,756	1,717		1,717	1,912	3,882
Currency options sold	1,189		1,189	1,005		1,005	357	1,806
	765,872		765,872	783,010		783,010	967,168	883,577
<b>Stock:</b>								
Stock option purchased	10,004		10,004	3,983		3,983	116,784	
Stock option sold	7,915		7,915	13,657		13,657		45,919
Stock swaps	91		91	79		79	12	12
	18,010		18,010	17,719		17,719	116,796	45,931
	(Won) 903,970	(Won) 31,517	(Won) 935,487	(Won) 979,993	(Won) 35,828	(Won) 1,015,821	(Won) 1,260,748	(Won) 1,148,033

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The details of financial derivatives as of December 31, 2005 and the valuation of financial derivatives for the year ended December 31, 2005 were as follows (Unit: In millions):

Type	Gain on valuation (P/L)			Loss on valuation (P/L)			Gain (loss) on valuation(B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Assets	Liabilities
Interest rate								
Interest rate forwards	(Won) 6	(Won) 6	(Won) 6	(Won) 3	(Won) 3	(Won) 3	(Won) 6	(Won) 3
Interest rate swaps	444,678	1,336	446,014	367,194	56,144	423,338	231,275	242,745
Interest rate options								
purchased	694		694	4,115		4,115	2,778	
Interest rate options sold	3,867		3,867	1,109		1,109		2,179
	449,245	1,336	450,581	372,421	56,144	428,565	234,059	244,927
Currency:								
Currency forwards	593,383		593,383	531,394		531,394	607,398	584,155
Currency swaps	66,458		66,458	96,686		96,686	298,431	179,250
Currency options								
purchased	118		118	1,011		1,011	117	1,011
Currency options sold	620		620	41		41	618	42
	660,579		660,579	629,132		629,132	906,564	764,458
Stock:								
Stock option purchased	20,002		20,002	18,244		18,244	61,345	
Stock option sold	19,765		19,765	19,240		19,240		61,516
	39,767		39,767	37,484		37,484	61,345	61,516
Other:								
Gold index options purchased	36		36	1,841		1,841	95	
Gold index options sold	1,928		1,928	34		34		95
	1,964		1,964	1,875		1,875	95	95
	(Won) 1,151,555	(Won) 1,336	(Won) 1,152,891	(Won) 1,040,912	(Won) 56,144	(Won) 1,097,056	(Won) 1,202,063	(Won) 1,070,996

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 debentures, subordinated bonds, structured bonds and structured deposits. As of December 31, 2006, the Bank recognized (Won)35,828 million of gains and (Won)31,517 million of losses on valuation of fair value hedged items. 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.

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- (9) The Bank purchased synthetic Collateralized Default Obligation (CDO) with embedded Credit Default Swap (CDS) for the purpose of earning income such as commission income. The details are as follows (Unit: In USD thousands):

<b>Date of contract</b>	<b>Date of maturity</b>	<b>Amount</b>	<b>Reference entity</b>
2006.8.24	2013.12.20	10,000	116 Global Bonds

The Bank could receive less than par and incur loss in relation to the sale of the CDO in credit events such as the default of the reference entity.

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20. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	USD equivalent (In thousands)	KRW equivalent (In millions)	USD equivalent (In thousands)	KRW equivalent (In millions)
<b>Assets:</b>				
Foreign currencies	US\$ 162,872	(Won) 151,406	US\$ 148,473	(Won) 150,402
Due from banks in foreign currencies	517,050	480,649	531,036	537,941
Securities in foreign currencies	891,936	829,144	768,890	778,887
Loans in foreign currencies	7,811,759	7,261,811	5,246,674	5,314,883
Bills bought in foreign currencies	1,366,517	1,270,314	1,359,412	1,377,085
Call loans in foreign currencies	195,685	181,909	49,307	49,948
<b>Liabilities:</b>				
Deposits in foreign currencies	US\$ 1,535,668	(Won) 1,427,557	US\$ 1,361,435	(Won) 1,379,133
Borrowings in foreign currencies	4,169,943	3,876,379	3,145,906	3,186,803
Due to BOK in foreign currencies			535	542
Call money in foreign currencies	50,975	47,386	272,800	276,346
Debentures in foreign currencies	2,614,924	2,430,834	1,038,490	1,051,990
Foreign exchange remittance pending	58,643	54,515	38,149	38,645

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

21. 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, 2006 and 2005 were as follows (Unit: In millions):

	2006			2005		
	Average balance	Interest revenue /expense	Interest rate (%)	Average balance	Interest revenue /expense	Interest rate (%)
<b>Interest revenue</b>						
Due from banks(*)	(Won) 677,666	(Won) 27,973	4.13	(Won) 906,427	(Won) 26,274	2.90
Securities	28,573,543	1,350,319	4.73	(Won) 23,793,346	1,127,393	4.74
Loans	143,416,597	10,652,569	7.43	(Won) 137,302,104	10,101,036	7.36
	(Won) 172,667,806	(Won) 12,030,861	6.97	(Won) 162,001,877	(Won) 11,254,703	6.95
<b>Interest expense</b>						
Deposits	(Won) 124,932,357	(Won) 3,433,480	2.75	(Won) 124,548,169	(Won) 3,209,746	2.58
Borrowings	16,471,085	656,936	3.99	(Won) 12,438,673	384,332	3.09
Debentures	21,196,351	1,139,073	5.37	(Won) 18,792,546	1,034,471	5.50
	(Won) 162,599,793	(Won) 5,229,489	3.22	(Won) 155,779,388	(Won) 4,628,549	2.97

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





22. GENERAL AND ADMINISTRATIVE EXPENSES:

(1) General and administrative expenses for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006	2005
Salaries	(Won) 1,433,569	(Won) 1,429,852
Provision for severance benefits	165,533	129,897
Other employee benefits	473,416	365,604
Rent	90,770	86,664
Depreciation and amortization	324,373	347,121
Taxes and dues	128,619	122,051
Advertising	118,866	66,273
Development expenses	137,579	132,294
Other general and administrative expenses	339,389	296,006
	(Won) 3,212,114	(Won) 2,975,762

(2) Other general and administrative expenses for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

	2006	2005
Communication	(Won) 44,169	(Won) 34,793
Electricity and utilities	17,271	16,696
Publication	21,906	20,459
Repairs maintenance	17,379	18,406
Vehicle	27,630	27,155
Training	25,832	17,928
Consumption expense	42,602	36,422
Provision fees	79,943	74,598
Others	62,657	49,549
	(Won) 339,389	(Won) 296,006

23. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2006 and 2005 consisted of (In millions):

	2006	2005
Non-operating income:		
Gain on disposal of tangible assets	(Won) 10,470	(Won) 11,377
Reversal of tangible assets impairment loss	841	641
Rental income	3,338	3,324
Gain on valuation of securities accounted for using the equity method	111,407	98,812
Gain on disposal of available-for-sale securities	182,325	319,534
Gain on disposal of held-to-maturity securities		216
Gain on disposal of securities accounted for using the equity method	1,764	
Reversal of impairment loss on available-for-sale securities	84,443	7,422
Gain on sale of loans	36,311	81,743
Others	258,186	211,626

(Won) 689,085

(Won) 734,695

	2006	2005
Non-operating expenses:		
Loss on disposal of tangible assets	(Won) 2,687	(Won) 4,197
Impairment loss on tangible assets	5,580	10,839
Loss on valuation of securities accounted for using the equity method	2,813	6,466
Loss on disposal of available-for-sale securities	15,283	19,199
Impairment loss on available-for-sale securities	124,266	98,025
Severance benefits for voluntary resignation	13,041	255,615
Loss on sale of loans	17,222	16,396
Others	155,822	111,527
	(Won) 336,714	(Won) 522,264

24. INCOME TAX EXPENSE:

- (1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2006 and 2005 are summarized as follows (Unit: In millions):

	2006		2005	
Income before income tax	(Won) 3,424,086		(Won) 3,228,253	
Taxable and non-deductible items:				
Temporary difference	(Won) 1,650,033		(Won) 3,101,225	
Permanent difference	1,272,701	2,922,734	697,896	3,799,121
Deductible and non-taxable items:				
Temporary difference	(2,617,995)		(2,518,977)	
Permanent difference	(651,176)	(3,269,171)	(752,789)	(3,271,766)
Taxable income	(Won) 3,077,649		(Won) 3,755,608	

- (2) Reconciliation items between accounting income and taxable income pursuant to the Corporate Income Tax Law of Korea for the years ended December 31, 2006 and 2005 are as follows (Units: In millions):

	2006		2005	
	Temporary difference	Permanent difference	Temporary difference	Permanent difference
Taxable and non-deductible items:				
Loss (Gain) on fair value hedges	(Won) 58,096	(Won)	(Won) 3,502	(Won)
Other allowances	776,661		900,606	
Accrued interest	349,024		309,506	
Tangible asset impairment losses	15,535		11,466	
Deferred loan organization fee and cost	52,025		48,889	
Interest on ELD	13,936		30,517	
Stock options	42,754		46,905	
Allowance for possible losses on acceptances and guarantees	18,772		10,141	
Loss (Gain) on valuation of financial derivatives	94,654		137,573	
Goodwill	78,345		78,345	



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Accounts	2006		2005	
	Temporary difference	Permanent difference	Temporary difference	Permanent difference
Present value discount	1,370		1,713	
Dividends from SPC	17,373		129,223	
Others	131,488	1,272,701	1,392,839	697,896
	(Won) 1,650,033	(Won) 1,272,701	(Won) 3,101,225	(Won) 697,896
Deductible and non-taxable items:				
Loss (Gain) on fair value hedges	(Won) 62,843	(Won)	(Won) 58,096	(Won)
Other allowances	875,835		635,910	
Allowance for loan losses	37,626		50,920	
Accrued interest	431,301		352,537	
Tangible asset impairment losses	11,466		2,296	
Deferred loan organization fee and cost	126,531		52,025	
Interest on ELD	25,737		41,937	
Stock options	46,905		29,613	
Allowance for possible losses on acceptances and guarantees	10,141		1,150	
Loss (Gain) on valuation of financial derivatives	5,512		94,654	
Present value discount	1,713		4,279	
Dividends from SPC	89,177			
Others	893,208	651,176	1,195,560	752,789
	(Won) 2,617,995	(Won) 651,176	(Won) 2,518,977	(Won) 752,789

- (3) Changes in cumulative temporary differences for the year ended December 31, 2006, and deferred income tax assets (liabilities) as of December 31, 2006 are as follows (Unit: In millions):

	Beginning balance (*)	2006		Ending balance
		Deduction	Addition	
(Deductible temporary differences)				
Other allowances	(Won) 900,625	(Won) 875,835	(Won) 776,661	(Won) 801,451
Allowance for loan losses	37,626	37,626		
Tangible asset impairment losses	11,466	11,466	15,535	15,535
Interest on ELD	31,108	25,737	13,936	19,307
Stock options	46,905	46,905	42,754	42,754
Allowance for possible losses on acceptances and guarantees	10,141	10,141	18,772	18,772
Present value discount	1,713	1,713	1,370	1,370
Dividends from SPC	268,685	80,803	17,373	205,255
Allowance for repurchase SPC	80,204			80,204
Others	396,882	59,697	128,360	465,545
	1,785,355	1,149,923	1,014,761	1,650,193
The exclusion of deferred income tax assets:				
Other allowances				7,238
Dividends from SPC	268,685			205,255
Allowance for repurchase SPC	80,204			80,204
Others	57,611			72,556
	1,378,855			1,284,940
Statutory tax rate	27.5%			27.5%

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Deferred income tax assets

(Won) 379,185

(Won) 353,359

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	2006			Ending balance
	Beginning balance (*)	Deduction	Addition	
(Taxable temporary differences)				
Loss (Gain) on fair value hedges	(Won) (58,096)	(Won) (58,096)	(Won) (62,843)	(Won) (62,843)
Accrued interest	(349,024)	(349,024)	(431,301)	(431,301)
Deferred loan organization fee and cost	(52,025)	(52,025)	(126,531)	(126,531)
Loss (Gain) on valuation of financial derivatives	(94,654)	(94,654)	(5,512)	(5,512)
Goodwill	(378,669)	(78,345)		(300,324)
Dividends from SPC			(8,374)	(8,374)
Others	194,453	425,084	(405,299)	(635,930)
	(738,015)	(207,060)	(1,039,860)	(1,570,815)
The exclusion of deferred income tax liabilities:				
Goodwill	(378,669)			(300,324)
Others	(44,567)			(72,406)
	(314,779)			(1,198,085)
Statutory tax rate	27.5%			27.5%
Deferred income tax liabilities	(Won) (86,564)			(Won) (329,473)
Net deferred income tax assets	(Won) 292,621			(Won) 23,886

(\*) The adjustment based on the final tax return was reflected in the beginning deferred income tax assets.

Changes in cumulative temporary differences for the year ended December 31, 2005, and deferred income tax assets (liabilities) as of December 31, 2005 are as follows (Unit: In millions):

	2005			Ending balance
	Beginning balance (*)	Deduction	Addition	
(Deductible temporary differences)				
Other allowances	(Won) 635,910	(Won) 635,910	(Won) 900,606	(Won) 900,606
Allowance for loan losses	116,934	50,920		66,014
Tangible asset impairment losses	2,296	2,296	11,466	11,466
Interest on ELD	41,937	41,937	30,517	30,517
Stock options	29,613	29,613	46,905	46,905
Allowance for possible losses on acceptances and guarantees	1,150	1,150	10,141	10,141
Present value discount	4,279	4,279	1,713	1,713
Dividends from SPC	131,186		129,223	260,409
Allowance for repurchase SPC	80,204			80,204
Others	1,521,072	1,105,444	608,841	1,024,469
	2,564,581	1,871,549	1,739,412	2,432,444
The exclusion of deferred income tax assets:				
Other allowances	458			
Dividends from SPC	131,186			260,409
Allowance for repurchase SPC				80,204
Others				59,661
	2,432,937			2,032,170
Statutory tax rate	27.5%			27.5%

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Deferred income tax assets

(Won) 669,058

(Won) 558,847

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	2005			Ending balance
	Beginning balance (*)	Deduction	Addition	
(Taxable temporary differences)				
Loss (Gain) on fair value hedges	(Won) (3,502)	(Won) (3,502)	(Won) (58,096)	(Won) (58,096)
Accrued interest	(309,506)	(309,506)	(352,537)	(352,537)
Deferred loan organization fee and cost	(48,889)	(48,889)	(52,025)	(52,025)
Loss (Gain) on valuation of financial derivatives	(137,573)	(137,573)	(94,654)	(94,654)
Goodwill	(457,014)	(78,345)		(378,669)
Others	(660,197)	(495,930)	(70,743)	(235,010)
	(1,616,681)	(1,073,745)	(628,055)	(1,170,991)
The exclusion of deferred income tax liabilities:				
Loss on valuation on investment securities	(444,481)			
Goodwill	(457,014)			(378,669)
Others				(44,567)
	(715,186)			(747,755)
Statutory tax rate	27.5%			27.5%
Deferred income tax liabilities	(Won) (196,676)			(Won) (205,633)
Net deferred income tax assets	(Won) 472,382			(Won) 353,214

(\*)The final tax return was reflected in the beginning deferred income tax assets

(4) Prepaid income tax and income tax payable as of December 31, 2006 and 2005 are as follows (Unit: In millions):

	2006	2005
Prepaid income tax	(Won) 617,690	(Won) 129,956
Income tax payable	845,887	1,032,011
Net income tax payable	(Won) 228,197	(Won) 902,055

(5) Income tax expense for the years ended December 31, 2006 and 2005 is summarized as follows (Unit: In millions):

	2006	2005
Income tax currently payable	(Won) 845,887	(Won) 1,032,011
Changes in deferred tax assets	268,735	45,277
Retained earnings and other capital surplus adjustments	(167,399)	(107,785)
Income tax expense of overseas branch	4,752	6,532
	(Won) 951,975	(Won) 976,035

- (6) The statutory income tax rates applicable to the Bank, including resident tax surcharges, are 27.5 percent for the years ended December 31, 2006 and 2005, respectively. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2006 and 2005 are 27.80 percent and 30.23 percent, respectively.

25. EARNINGS PER SHARE:

(1) Ordinary income per share and net income per share

Ordinary income per share and net income per share were calculated for common stock by dividing ordinary income and net income available to common shareholders by the weighted average number of outstanding common stock. In the event the stock options are exercised during the years ended December 31, 2005 and 2006, the outstanding common shares are calculated on the assumption that the treasury stock are disposed of on the exercised date.

Ordinary income per share and net income per share for common stock for the years ended December 31, 2006 and 2005 were computed as follows:

1) Outstanding capital stock for the year ended December 31, 2006 was as follows:

	Number of shares	Number of shares x number of days
Number of common shares outstanding-beginning balance	336,379,116	122,778,377,340
Number of treasury stock outstanding-beginning balance	(217,935)	(79,546,275)
Sale of treasury stock	217,935	77,348,731
	336,379,116	122,776,179,796

Weighted average number of common shares outstanding:  $122,776,179,796 \div 365 \text{ days} = 336,373,095$  shares

Outstanding capital stock for the year ended December 31, 2005 was as follows:

	Number of shares	Number of shares x number of days
Number of common shares outstanding-beginning balance	336,379,116	122,778,377,340
Number of treasury stock outstanding-beginning balance	(29,881,209)	(10,906,641,285)
Sale of treasury stock	29,663,274	5,945,063,364
	336,161,181	117,816,799,419

Weighted average number of common shares outstanding:  $117,816,799,419 \div 365 \text{ days} = 322,785,752$  shares

2) The basic net income per share for the years ended December 31, 2006 and 2005 was as follows (Unit: In Won)

	2006	2005
Net income (ordinary income)	(Won) 2,472,111,192,678	(Won) 2,252,218,097,725
Weighted average number of common shares outstanding	336,373,095	322,785,752
Net income per share	(Won) 7,349	(Won) 6,977
Ordinary income per share	(Won) 7,349	(Won) 6,977

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The ordinary income for the years ended December 31, 2006 and 2005 equals to net income because there is no extraordinary item.

(2) Diluted ordinary income per share and diluted net income per share

Diluted net income and diluted ordinary income per share for the years ended December 31, 2006 and 2005 represent diluted net income and diluted ordinary income divided by the number of common shares and diluted securities. Stock options were considered for the computation of diluted earning per share due to their dilutive effects.

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Diluted net income (ordinary income) per share for the years ended December 31, 2006 and 2005 was computed as follows (Unit: In Won):

	2006	2005
Diluted net income (ordinary income) (*1)	(Won) 2,472,111,192,678	(Won) 2,251,945,887,540
Weighted average number of common shares outstanding and diluted securities (*2)	336,375,518	322,956,583
Diluted net income per share	(Won) 7,349	(Won) 6,973
Diluted ordinary income per share	(Won) 7,349	(Won) 6,973

(\*1) For the year ended December 31, 2006, the stock options included in the diluted shares have no effect on net income because the contracted service period has expired. For the year ended December 31, 2005, the stock option right expired and the accumulated compensation cost was reversed, therefore the related cost was deducted from net income.

(\*2) For the years ended December 31, 2006 and 2005, the 2,423 shares and 170,831 shares of treasury stock combined with stock options rendered, respectively, are included in diluted shares.

26. TRUST ACCOUNTS:

(1) Major financial information related to the trust accounts as of and for the years ended December 31, 2006 and 2005 were as follows (Unit : In millions):

	2006	2005
<b>Operating revenue of trust operation:</b>		
Trust fees and commissions from trust accounts	(Won) 97,141	(Won) 137,666
Commissions from early redemption in trust accounts	19	15
	(Won) 97,160	(Won) 137,681
<b>Operating expenses of trust operation:</b>		
Losses on trust accounts	(Won)	(Won) 2
Interest expense on borrowings from trust accounts	48,231	30,436
	(Won) 48,231	(Won) 30,438
<b>Assets:</b>		
Accrued receivable trust fees	(Won) 81,650	(Won) 64,480
<b>Liabilities:</b>		
Borrowings from trust accounts	(Won) 1,281,185	(Won) 1,059,469

(2) 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):

	Name of fund	Book value	Fair value
Trust accounts guaranteeing the repayment of principal:	Old age pension (*1 & 2)	(Won) 13,331	(Won) 13,305

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Personal pension (*1 & 2)	2,256,483	2,230,878
Pension trust	463,785	463,785
Retirement trust	512,951	512,951
New personal pension	68,648	68,648
New old age pension	100,176	100,177
	3,415,374	3,389,744

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	Name of fund	Book value	Fair value
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:	Development money trust (*1)	70,464	70,478
	Unspecified monetary trust (*1)	153	153
		70,617	70,631
		(Won) 3,485,991	(Won) 3,460,375

(\*1) These funds were not stated at fair value but at book value.

(\*2) The book value is greater than the fair value, but the Bank is not obligated to pay the difference since these are yield-based dividend instruments.

27. SEGMENT INFORMATION:

(1) As of December 31, 2006 and 2005, the Bank's operating segments are consumer banking, corporate banking, credit card operation, treasury operation of investment in securities (including derivatives) and funding, and other operations of general administration and trust. Geographical segment are segregated into two segments: domestic and overseas operations.

As of and for the year ended December 31, 2006, financial information on the Bank's operating segments was as follows (Unit: In millions):

	Consumer (Won)	Corporate (Won)	Credit card (Won)	Capital market (Won)	Other (Won)	Total (Won)
Securities		222,892	84,156	25,946,509	3,128,923	29,382,480
Loans	84,258,294	55,001,230	7,608,708	2,872,625	126,325	149,867,182
Operating income before provision	2,069,608	846,108	989,343	(80,355)	522,574	4,347,278

As of and for the year ended December 31, 2005, financial information on the Bank's operating segments was as follows (Unit: In millions):

	Consumer (Won)	Corporate (Won)	Credit card (Won)	Capital market (Won)	Other (Won)	Total (Won)
Securities		210,078	142,527	27,654,319	2,543,375	30,550,299
Loans	81,110,421	44,485,500	7,373,912	2,736,564	32,010	135,738,407
Operating income before provision	2,155,274	819,515	1,289,040	181	162,208	4,426,218

(2) Financial information on the Bank's geographical segments as of and for the year ended December 31, 2006 was as follows (Unit: In millions):

	Domestic (Won)	Overseas (Won)	Total (Won)
Securities	29,382,480		29,382,480
Loans	149,481,281	385,901	149,867,182
Operating income before provision	4,331,162	16,116	4,347,278

Financial information on the Bank's geographical segments as of and for the year ended December 31, 2005 was as follows (Unit: In millions):

	Domestic (Won)	Overseas (Won)	Total (Won)
Securities	30,550,299		30,550,299
Loans	135,246,463	491,944	135,738,407
Operating income before provision	4,408,399	17,819	4,426,218





28. RELATED PARTY TRANSACTIONS:

(1) The subsidiaries of the Bank as of December 31, 2006 and 2005 were as follows:

	<b>Subsidiaries</b>
Domestic	KB Investment Co., Ltd. KB Futures Co., Ltd. KB Data System Co., Ltd. KB Asset Management Co., Ltd. KB Real Estate Trust Co., Ltd. KB Credit Information Co., Ltd. KB Life Insurance Co., Ltd. NPC 02-4 Kookmin Venture Fund
Overseas	Kookmin Bank International Ltd. (London) Kookmin Bank Hong Kong Ltd.

(2) The various employee benefits for the major directors for the year ended December 31, 2006 were as follows (Unit: In millions):

	<b>Short-term employee benefits(*)</b>	<b>Stock option</b>	<b>Total</b>
Registered officers (Standing)	(Won) 3,968	(Won) 6,220	(Won) 10,188
Registered officers (Non-Standing)	575	533	1,108
	(Won) 4,543	(Won) 6,753	(Won) 11,296

(\*) Short-term employee benefits are based on the actual payment.

(3) Significant balances with related parties as of December 31, 2006 and 2005 were as follows (Unit: In millions):

	<b>Assets</b>	<b>2006 Allowance</b>	<b>Liabilities</b>
<b>Subsidiaries:</b>			
Trust accounts (trust accounts guaranteed a fixed rate of return and/or the repayment of principal)	(Won) 68,949	(Won)	(Won) 157,695
KB Investment Co., Ltd.			12,608
KB Futures Co., Ltd.	926		8,095
KB Data System Co., Ltd.	42		22,918
KB Asset Management Co., Ltd.	99		58,289
KB Real Estate Trust Co., Ltd.	862	6	549
KB Credit Information Co., Ltd.	120		29,462
KB Life Insurance Co., Ltd.	3,167		6,113
NPC 02-4 Kookmin Venture Fund			13,189
Kookmin Bank International Ltd. (London)	231,563		49,536
Kookmin Bank Hong Kong Ltd.	178,590		12,285
	484,318	6	370,739
<b>Investee under the equity method:</b>			
Pacific IT Investment Partnership			51
Joeeun Industrial Co., Ltd.	60,858	31,677	

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	60,858	31,677	51
	(Won) 545,176	(Won) 31,683	(Won) 370,790

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	Assets	2005 Allowance	Liabilities
<b>Subsidiaries:</b>			
Trust accounts (trust accounts guaranteed a fixed rate of return and/or the repayment of principal)	(Won) 57,658	(Won)	(Won) 128,147
KB Investment Co., Ltd.			20,096
KB Futures Co., Ltd.	1,874		13,899
KB Data System Co., Ltd.	50		14,021
KB Asset Management Co., Ltd.	114		21,861
KB Real Estate Trust Co., Ltd.	18,532	92	1,418
KB Credit Information Co., Ltd.	191		22,405
KB Life Insurance Co., Ltd.	1,620		793
NPC 02-4 Kookmin Venture Fund			19,327
Kookmin Bank International Ltd. (London)	247,919		54,436
Kookmin Bank Hong Kong Ltd.	123,460	51	24,641
	451,418	143	321,044
<b>Investee under the equity method:</b>			
Pacific IT Investment Partnership			1,639
Joeeun Industrial Co., Ltd.	65,927	15,163	
	65,927	15,163	1,639
	(Won) 517,345	(Won) 15,306	(Won) 322,683

(4) Significant transactions with related parties for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

	Revenue	2006 Bad debt expenses	Expenses
<b>Subsidiaries:</b>			
Trust accounts (trust accounts guaranteed a fixed rate of return and/or the repayment of principal)	(Won) 42,528	(Won)	(Won) 4,255
KB Investment Co., Ltd.	1		341
KB Futures Co., Ltd.	92		1,756
KB Data System Co., Ltd.	39		27,356
KB Asset Management Co., Ltd.	783		1,961
KB Real Estate Trust Co., Ltd.	1,424	(87)	
KB Credit Information Co., Ltd.	234		69,368
KB Life Insurance Co., Ltd.	36,679		2
NPC 02-4 Kookmin Venture Fund	6		504
Kookmin Bank International Ltd. (London)	11,072		4,394
Kookmin Bank Hong Kong Ltd.	9,702	(46)	2,136
	102,560	(133)	112,073
<b>Investee under the equity method:</b>			
Pacific IT Investment Partnership			11
Joeeun Industrial Co., Ltd.		16,514	
		16,514	11
	(Won) 102,560	(Won) 16,381	(Won) 112,084



	Revenue	2005 Bad debt expenses	Expenses
<b>Subsidiaries:</b>			
Trust accounts (trust accounts guaranteed a fixed rate of return and/or the repayment of principal)	(Won) 83,019	(Won)	(Won) 4,440
KB Investment Co., Ltd.			623
KB Futures Co., Ltd.	25		1,370
KB Data System Co., Ltd.	93		22,752
KB Asset Management Co., Ltd.	907		1,030
KB Real Estate Trust Co., Ltd.	1,743	(78)	
KB Credit Information Co., Ltd.	197		70,708
KB Life Insurance Co., Ltd.	30,167		22
NPC 02-4 Kookmin Venture Fund	7		518
Kookmin Bank International Ltd. (London)	7,294	(45)	4,901
Kookmin Bank Hong Kong Ltd.	6,309		2,092
	129,761	(123)	108,456
<b>Investee under the equity method:</b>			
Pacific IT Investment Partnership			5
Joeeun Industrial Co., Ltd.		1,709	
		1,709	5
	(Won) 129,761	(Won) 1,586	(Won) 108,461

29. EMPLOYEE BENEFITS:

The Bank has employee benefits programs, such as support for rent of houses, scholarship, medical insurance, accident compensation, compensated leave, gym facilities and other benefits.

30. CASH FLOWS:

- (1) Cash flows from operating activities are presented by the indirect method.
- (2) The cash and due from banks in the statements of cash flows for the years ended December 31, 2006 and 2005 were as follows (Unit : In millions):

	2006	2005
Cash on hand	(Won) 2,725,644	(Won) 2,683,479
Foreign currencies	151,406	150,402
Due from banks in Won	3,210,607	2,495,595
Due from banks in foreign currencies	480,649	537,941
	6,568,306	5,867,417
Restricted due from banks	(3,280,487)	(2,242,586)
	(Won) 3,287,819	(Won) 3,624,831

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- (3) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2006 and 2005 were as follows (Unit : In millions):

	2006	2005
Write-offs of loans and decrease of loans from principal reduction	(Won) 1,698,050	(Won) 1,988,445
Decrease in allowance for sale and repurchase of impaired loans	109,325	202,012
Changes in capital adjustments from valuation of securities	386,800	200,437
Reclassification of available-for-sale securities to held-to-maturity securities		60,091
Reclassification of tangible assets to intangible assets	30,035	

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31. FINANCIAL INFORMATION OF THE FOURTH QUARTER:

The major operating results of 4<sup>th</sup> quarter in 2006 and 2005(unaudited) are as follows (Unit: In millions):

	4 <sup>th</sup> quarter	
	2006	2005
Operating revenue	(Won) 5,040,559	(Won) 4,389,141
Operating expenses	4,728,082	3,748,338
Operating income	312,477	640,803
Non-operating income	174,402	119,448
Non-operating expenses	176,583	134,892
Ordinary income	310,296	625,359
Extraordinary item		
Income before income tax	310,296	625,359
Income tax expense	96,286	201,660
Net income	(Won) 214,010	(Won) 423,699
Net income per share	(Won) 636	(Won) 1,261
Diluted net income per share	(Won) 636	(Won) 1,260

32. APPROVAL DATE OF FINANCIAL STATEMENTS:

Financial statements to be presented at the annual shareholders meeting were approved by the board of directors on February 8, 2007.

**Independent Accountant's Review Report**

**on Internal Accounting Control System ( IACS )**

English Translation of a Report Originally Issued in Korean

To the Representative Director of

Kookmin Bank

We have reviewed the accompanying Report on the Management's Assessment of IACS (the Management's Report) of Kookmin Bank (the Bank) as of December 31, 2006. 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, 2006, the Bank's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea 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, 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 the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Bank's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. 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.

March 2, 2007



**Report on the Operations of the Internal Accounting Control System**

To the Board of Directors and Audit Committee of Kookmin Bank

I, as the Internal Accounting Control Officer ( IACO ) of Kookmin Bank ( the Company ), assessed the status of the design and operations of the Company s internal accounting control system ( IACS ) for the year ended December 31, 2006.

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

Based on the assessment on the operations of the IACS, the Company s IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS standards.

February 26, 2007

, Internal Accounting Control System Officer

/s/ Kap Shin

CFO/Senior EVP, Executive Director

, President and Chief Executive Officer

/s/ Chung Won Kang

## KOOKMIN BANK AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

	2006	Korean Won (In millions)	2005
<b>ASSETS</b>			
Cash and due from banks	(Won) 6,688,977		(Won) 5,942,996
Securities	32,588,135		33,479,132
Loans	150,017,861		135,821,846
Fixed assets	2,512,885		2,441,612
Other assets	7,107,020		5,217,136
	(Won) 198,914,878		(Won) 182,902,722
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits	(Won) 133,296,975		(Won) 129,615,589
Borrowings	13,804,393		13,328,397
Debentures	24,982,506		16,547,987
Other liabilities	11,702,943		10,960,517
	183,786,817		170,452,490
<b>SHAREHOLDERS' EQUITY</b>			
Common stock	1,681,896		1,681,896
Capital surplus	6,274,831		6,269,599
Retained earnings			
(Net income of (Won)2,458,260 million for the year ended December 31, 2006 and (Won)2,241,055 million for the year ended December 31, 2005)	6,241,912		3,967,535
Capital adjustments	885,141		492,589
Minority interests	44,281		38,613
	15,128,061		12,450,232
	(Won) 198,914,878		(Won) 182,902,722

KOOKMIN BANK AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won	
	2006	2005
	(In millions except per share amounts)	
<b>OPERATING REVENUE:</b>		
Interest income:		
Interest on due from banks	(Won) 34,036	(Won) 28,977
Interest on securities	1,505,053	1,260,527
Interest on loans	10,678,249	10,160,065
Other interest income	50,065	41,641
	12,267,403	11,491,210
Commission income	1,379,420	1,163,695
Other operating income:		
Gain on disposal of trading securities	60,242	103,953
Gain on valuation of trading securities	9,076	
Dividends on trading securities	3,135	4,998
Dividends on available-for-sale securities	4,789	3,431
Gain on foreign exchange trading	245,217	253,907
Fees and commissions from trust accounts	125,786	110,507
Gain on financial derivatives trading	4,422,217	3,655,079
Gain on valuation of financial derivatives	935,246	1,153,294
Gain on valuation of fair value hedged items	35,828	56,144
Other operating income	109,403	46,739
	5,950,939	5,388,052
Insurance revenue	386,944	244,001
Total operating revenue	19,984,706	18,286,958
<b>OPERATING EXPENSES:</b>		
Interest expenses:		
Interest on deposits	3,543,984	3,281,112
Interest on borrowings	658,232	384,892
Interest on debentures	1,139,073	1,034,472
Other interest expenses	50,757	30,650
	5,392,046	4,731,126
Commission expense	484,030	349,379
Other operating expenses:		
Loss on disposal of trading securities	51,350	99,142
Loss on valuation of trading securities		13,536
Provision for possible loan losses	1,028,465	1,029,445
Provision for acceptance and guarantee losses	8,931	9,008
Loss on foreign exchange trading	296,771	237,443

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Loss on financial derivatives trading	4,082,692	3,577,462
Loss on valuation of financial derivatives	1,015,782	1,096,714
Loss on valuation of fair value hedged items	31,517	1,336
Other operating expenses	802,196	800,340
	7,317,704	6,864,426
General and administrative expenses	3,304,474	3,031,958
Insurance expense	385,897	221,483
Total operating expenses	16,884,151	15,198,372

(Continued)

## KOOKMIN BANK AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won	
	2006	2005
	(In millions except per share amounts)	
OPERATING INCOME	(Won) 3,100,555	(Won) 3,088,586
NON-OPERATING INCOME	640,225	697,038
NON-OPERATING EXPENSES	299,727	526,598
ORDINARY INCOME	3,441,053	3,259,026
EXTRAORDINARY ITEM		
INCOME BEFORE INCOME TAX	3,441,053	3,259,026
INCOME TAX EXPENSE	974,047	1,006,052
NET INCOME BEFORE MINORITY INTERESTS	2,467,006	2,252,974
MINORITY INTERESTS, GAIN	8,746	11,919
NET INCOME	(Won) 2,458,260	(Won) 2,241,055
ORDINARY INCOME PER SHARE (In currency units)	(Won) 7,308	(Won) 6,943
NET INCOME PER SHARE (In currency units)	(Won) 7,308	(Won) 6,943
DILUTED ORDINARY INCOME PER SHARE (In currency units)	(Won) 7,308	(Won) 6,938
DILUTED NET INCOME PER SHARE (In currency units)	(Won) 7,308	(Won) 6,938