KOOKMIN BANK
Form 20-F
June 28, 2007
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As filed with the Securities and Exchange Commission on June 28, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report __________.

Commission file number 001-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one share of Common Stock	New York Stock Exchange
Common Stock, par value (Won)5,000 per share	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

336,379,116 shares of Common Stock, par value (Won)**5,000 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

As of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this annual report as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 has been prepared in accordance with U.S. GAAP.

In this annual report:

- references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger with H&CB, the former Kookmin Bank;
- references to Korea are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, $ or US$ are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be a result of rounding.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 29, 2006, which was (Won)930.0 = US$1.00.

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FORWARD-LOOKING STATEMENTS

The U.S. Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, predict, positioned, project, risk, seek to, shall, should, will likely result, will pursue, plan and words and terms of similar sub connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 4B. Business Overview regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed under Item 3D. Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this annual report could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;

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- unanticipated volatility in interest rates;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this annual report.

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers and our consolidated financial statements as of and for the years ended December 31, 2005 and 2006 have been audited by independent registered public accounting firm Deloitte Anjin LLC.

You should read the following data together with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included elsewhere in this annual report. Historical results do not necessarily predict future results.

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Consolidated income statement data

	Year ended December 31,											
	2002		2003		2004		2005		2006		2006[1]	
	(in billions of Won, except common share data)										(in millions of US$, except common share data)	
Interest and dividend income	(Won)	13,450	(Won)	13,755	(Won)	12,092	(Won)	10,658	(Won)	11,405	US$	12,263
Interest expense		6,734		6,462		5,516		4,757		5,342		5,744
Net interest income		6,716		7,293		6,576		5,901		6,063		6,519
Provision for credit losses		3,886		7,167		3,861		613		(100)		(107)
Non-interest income		3,098		2,914		2,800		2,844		2,880		3,096
Non-interest expense		4,387		4,406		4,032		4,314		4,522		4,862
Income tax expense (benefit)		597		(367)		448		1,099		1,423		1,530
Minority interests		(211)		(52)		3		3		5		5
Net income (loss) from continuing operations		1,155		(947)		1,032		2,716		3,093		3,325
Net (loss) income from discontinued operations after income taxes		97										
Cumulative effect of accounting change, net of tax										(2)		(2)
Net income (loss)	(Won)	1,252	(Won)	(947)	(Won)	1,032	(Won)	2,716	(Won)	3,091	US$	3,323
Net income (loss) from continuing operations per common share												
Net income (loss) basic	(Won)	3,633	(Won)	(2,905)	(Won)	3,367	(Won)	8,415	(Won)	9,194	US$	9.89
Net income (loss) diluted[2]		3,535		(2,905)		3,365		8,411		9,193		9.88
Net income (loss) per common share												
Net income (loss) basic	(Won)	3,939	(Won)	(2,905)	(Won)	3,367	(Won)	8,415	(Won)	9,189	US$	9.88
Net income (loss) diluted[2]		3,831		(2,905)		3,365		8,411		9,188		9.87
Weighted average common shares outstanding-basic (in thousands of common shares)		317,787		326,000		306,432		322,786		336,351		336,351
Weighted average common shares outstanding-diluted (in thousands of common shares)		328,107		326,000		306,650		322,948		336,353		336,353
Cash dividends paid per common share [3]	(Won)	100	(Won)	1,000			(Won)	550	(Won)	550	US$	0.59

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees.

(3) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

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Consolidated balance sheet data

	Year ended December 31, 2002	2003	2004	2005	2006	2006[1]
	(in billions of Won)					(in millions of US$)
Assets						
Cash and cash equivalents	(Won) 3,328	(Won) 3,170	(Won) 2,818	(Won) 3,086	(Won) 3,775	US$ 4,059
Restricted cash	1,580	2,770	1,822	2,259	3,277	3,524
Interest-bearing deposits in other banks	564	563	597	515	423	455
Call loans and securities purchased under resale agreements	229	3,959	2,993	1,716	1,738	1,869
Trading assets	6,368	3,517	6,096	4,754	3,744	4,026
Investments [2]	24,223	22,427	23,095	25,372	25,348	27,256
Loans (net of allowance for loan losses of (Won)5,195 billion in 2002, (Won)5,772 billion in 2003, (Won)4,461 billion in 2004 (Won)3,212 billion in 2005 and (Won)2,468 billion in 2006)	140,756	140,213	133,794	134,939	149,216	160,447
Due from customers on acceptances	881	605	743	627	620	667
Premises and equipment, net	2,121	1,909	1,637	1,516	1,612	1,733
Accrued interest and dividends receivable	1,116	995	871	1,060	802	862
Security deposits	1,337	1,331	1,285	1,185	1,190	1,280
Goodwill	162	395	422	394	394	424
Other intangible assets, net	469	423	308	217	185	199
Other assets	965	1,702	1,055	868	654	702
Total assets	(Won) 184,099	(Won) 183,979	(Won) 177,536	(Won) 178,508	(Won) 192,978	US$ 207,503
Liabilities and Stockholders Equity						
Deposits:						
Interest bearing	(Won) 118,654	(Won) 128,144	(Won) 123,203	(Won) 121,787	(Won) 125,195	US$ 134,618
Non-interest bearing	3,745	3,460	3,017	3,912	4,345	4,672
Call money	306	225	652	1,253	168	180
Trading liabilities	625	762	2,297	1,078	1,223	1,315
Acceptances outstanding	881	605	743	627	620	667
Other borrowed funds	15,856	12,895	9,514	6,118	10,627	11,427
Accrued interest payable	4,463	3,938	3,495	3,307	3,698	3,977
Secured borrowings	7,864	8,207	6,121	8,118	7,463	8,024
Long-term debt	20,165	16,607	17,899	16,751	21,675	23,306
Other liabilities	2,634	2,552	2,900	4,151	3,174	3,415
Total liabilities	175,193	177,395	169,841	167,102	178,188	191,601
Minority interests	71	16	13	14	18	19
Common stock	1,641	1,682	1,682	1,682	1,682	1,808
Additional paid-in capital	5,146	5,393	5,400	5,416	5,404	5,810
Other	2,048	(507)	600	4,294	7,686	8,265

Stockholders equity	8,835	6,568	7,682	11,392	14,772	15,883
Total liabilities, minority interests and stockholders equity	(Won) 184,099	(Won) 183,979	(Won) 177,536	(Won) 178,508	(Won) 192,978	US$ 207,503

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

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Profitability ratios and other data

	Year ended December 31,				
	2002	2003	2004	2005	2006
			(percentages)		
Net income as a percentage of:					
Average total assets [1]	0.71%	(0.49)%	0.56%	1.50%	1.61%
Average stockholders equity[1]	13.50	(7.17)	13.36	25.51	22.52
Dividend payout ratio [2]	1.80		16.33	6.81	39.73
Net interest spread [3]	3.71	3.68	3.62	3.29	3.15
Net interest margin [4]	4.02	4.01	3.84	3.53	3.43
Efficiency ratio [5]	44.70	43.17	43.00	49.33	50.56
Cost-to-average assets ratio [6]	2.49	2.28	2.19	2.38	2.36
Won loans (gross) as a percentage of Won deposits	115.68	108.30	108.00	106.34	112.16
Total loans (gross) as a percentage of total deposits	119.14	110.83	109.43	109.80	116.88

(1) Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our subsidiaries.

(2) Represents the ratio of total dividends declared on common stock as a percentage of net income.

(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(4) Represents the ratio of net interest income to average interest earning assets.

(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.

(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

	Year ended December 31,				
	2002	2003	2004	2005	2006
			(percentages)		
Total capital adequacy ratio [1]	10.41%	9.81%	11.01%	12.95%	14.17%
Tier I capital adequacy ratio [1]	6.62	6.03	6.67	9.67	10.07
Tier II capital adequacy ratio [1]	3.79	3.78	4.34	3.28	4.10
Average stockholders equity as a percentage of average total assets	5.26	6.83	4.20	5.87	7.17

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP, which may differ in certain significant respects from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

Credit portfolio ratios and other data

	As of December 31,				
	2002	2003	2004	2005	2006
			(in billions of Won, except percentages)		
Total loans	(Won) 145,832	(Won) 145,858	(Won) 138,124	(Won) 138,012	(Won) 151,403
Total non-performing loans [1]	3,912	4,116	3,175	3,149	2,143
Other impaired loans not included in non-performing loans	2,680	3,072	2,034	1,615	1,195
Total of non-performing loans and other impaired loans	6,592	7,188	5,209	4,764	3,338
Total allowance for loan losses	5,195	5,772	4,461	3,212	2,468
Non-performing loans as a percentage of total loans	2.68%	2.82%	2.30%	2.28%	1.42%

Non-performing loans as a percentage of total assets	2.13	2.24	1.79	1.76	1.11
Total of non-performing loans and other impaired loans as a percentage of total loans	4.52	4.93	3.77	3.45	2.21
Allowance for loan losses as a percentage of total loans	3.56	3.96	3.23	2.33	1.63

(1) Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due more than 90 days.

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Selected Statistical Information

Average Balance Sheets and Related Interest

The following table shows our average balances and interest rates for the past three years:

	Year ended December 31,								
	2004			2005			2006		
	Average balance[1]	Interest income[2][3][4]	Average yield	Average balance[1]	Interest income[2][3][4]	Average yield	Average balance[1]	Interest income[2][3][4]	Average yield
	(in billions of Won, except percentages)								
Assets									
Cash and interest-earning deposits in other banks	(Won) 1,188	(Won) 21	1.77%	(Won) 1,069	(Won) 27	2.53%	(Won) 860	(Won) 28	3.26%
Call loans and securities purchased under resale agreements	2,355	85	3.61	2,378	78	3.28	1,415	60	4.24
Trading securities	3,253	156	4.80	3,342	129	3.86	3,318	159	4.79
Investment securities [5]	20,030	1,004	5.01	23,357	960	4.11	27,605	1,217	4.41
Loans:									
Commercial and industrial	42,369	2,639	6.23	39,031	2,352	6.03	44,631	2,694	6.04
Construction loans	4,718	309	6.55	4,283	284	6.63	5,194	349	6.72
Other commercial	926	43	4.64	1,295	65	5.02	1,514	86	5.68
Mortgage and home equity	55,863	3,607	6.46	58,376	3,355	5.75	60,373	3,724	6.17
Other consumer	27,287	2,197	8.05	24,506	2,002	8.17	22,046	1,811	8.21
Credit cards [4]	12,049	1,978	16.42	8,369	1,362	16.27	8,547	1,221	14.29
Foreign commercial and industrial	1,342	53	3.95	1,219	44	3.61	1,152	56	4.86
Loans (total)	144,554	10,826	7.49	137,079	9,464	6.90	143,457	9,941	6.93
Total average interest earning assets	171,380	12,092	7.06	167,225	10,658	6.37	176,655	11,405	6.46
Cash and due from banks	5,062			4,997			5,102		
Foreign exchange spot contracts and derivatives	4,839			5,786			5,798		
Premises and equipment	2,052			1,641			1,504		
	532			1,092			594		

Due from customers on acceptance									
Loan loss allowance	(5,373)			(3,844)			(2,396)		
Assets of discontinued operations									
Other non-interest earning assets	5,610			4,411			4,261		
Total average non-interest earning assets	12,722			14,083			14,863		
Total average assets	(Won) 184,102	(Won) 12,092	6.57	(Won) 181,308	(Won) 10,658	5.88	(Won) 191,518	(Won) 11,405	5.96

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	Year ended December 31,								
	2004			2005			2006		
	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost
	(in billions of Won, except percentages)								
Liabilities									
Deposits:									
Demand deposits	(Won) 620	(Won) 1	0.16%	(Won) 614	(Won) 7	1.14%	(Won) 625	(Won) 11	1.76%
Certificates of deposit	6,107	248	4.06	5,007	185	3.69	8,386	379	4.52
Other time deposits	68,230	2,716	3.98	66,229	2,388	3.61	62,015	2,433	3.92
Savings deposits	39,042	309	0.79	38,343	219	0.57	41,652	296	0.71
Mutual installment deposits	12,105	560	4.63	10,589	382	3.61	8,511	289	3.40
Deposits (total)	126,104	3,834	3.04	120,782	3,181	2.63	121,189	3,408	2.81
Call money	1,267	42	3.31	1,218	40	3.28	2,825	119	4.21
Borrowings from the Bank of Korea	911	22	2.41	687	14	2.04	653	15	2.30
Other short-term borrowings	8,150	310	3.80	7,474	275	3.68	7,574	339	4.48
Secured borrowings	7,400	366	4.95	7,109	310	4.36	8,622	389	4.51
Long-term debt	16,749	942	5.62	17,114	937	5.48	20,285	1,072	5.28
Total average interest bearing liabilities	160,581	5,516	3.44	154,384	4,757	3.08	161,148	5,342	3.31
Demand deposits	2,832			3,010			3,173		
Foreign exchange spot contracts and derivatives	4,840			5,748			5,739		
Acceptances to customers	652			760			593		
Other non-interest bearing liabilities	7,472			6,759			7,139		
Total average non-interest bearing liabilities	15,796			16,277			16,644		
Total average liabilities	176,377	5,516	3.13	170,661	4,757	2.79	177,792	5,342	3.00

Stockholders equity	7,725			10,647			13,726		
Total liabilities and stockholders equity	(Won) 184,102	(Won) 5,516	3.00	(Won) 181,308	(Won) 4,757	2.62	(Won) 191,518	(Won) 5,342	2.79

(1) Average balances are based on daily balances for our primary banking operations and monthly or quarterly balances for our subsidiaries.

(2) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.

(3) We do not invest in any tax-exempt securities.

(4) Interest income from credit cards includes principally cash advance fees of (Won)1,148 billion, (Won)880 billion and (Won)708 billion and interest on credit card loans of (Won)430 billion, (Won)217 billion and (Won)274 billion for the years ended December 31, 2004, 2005 and 2006, respectively.

(5) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders equity.

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The following table presents our net interest spread, net interest margin, and asset liability ratio for the past three years:

	Year ended December 31, 2004	2005	2006
		(percentages)	
Net interest spread [(1)]	3.62%	3.29%	3.15%
Net interest margin [(2)]	3.84	3.53	3.43
Average asset liability ratio [(3)]	106.72	108.32	109.62

(1) The difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities.

(2) The ratio of net interest income to average interest earning assets.

(3) The ratio of average interest earning assets to average interest bearing liabilities.

Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2005 compared to 2004 and 2006 compared to 2005. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2005 vs. 2004 Increase/(decrease) due to change in Volume	Rate	Total	2006 vs. 2005 Increase/(decrease) due to change in Volume	Rate	Total
			(in billions of Won)			
Interest earning assets						
Cash and interest earning deposits in other banks	(Won) (2)	(Won) 8	(Won) 6	(Won) (6)	(Won) 7	(Won) 1
Call loans and securities purchased under resale agreements	1	(8)	(7)	(37)	19	(18)
Trading securities	4	(31)	(27)	(1)	31	30
Investment securities	152	(196)	(44)	184	73	257
Loans						
Commercial and industrial	(203)	(84)	(287)	338	4	342
Construction loans	(29)	4	(25)	61	4	65
Other commercial	18	4	22	12	9	21
Mortgage and home equity	157	(409)	(252)	117	252	369
Other consumer	(227)	32	(195)	(202)	11	(191)
Credit cards	(599)	(17)	(616)	28	(169)	(141)
Foreign commercial and industrial	(5)	(4)	(9)	(3)	15	12
Total interest income	(733)	(701)	(1,434)	491	256	747

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	2005 vs. 2004 Increase/(decrease) due to change in Volume	Rate	Total	2006 vs. 2005 Increase/(decrease) due to change in Volume	Rate	Total
			(in billions of Won)			
Interest bearing liabilities						
Deposits:						
Demand deposits	0	6	6	0	4	4
Certificates of deposit	(42)	(21)	(63)	146	48	194
Other time deposits	(78)	(250)	(328)	(158)	203	45
Savings deposits	(5)	(85)	(90)	20	57	77
Mutual installment deposits	(65)	(113)	(178)	(72)	(21)	(93)
Call money	(2)	0	(2)	65	14	79
Borrowings from the Bank of Korea	(5)	(3)	(8)	(1)	2	1
Other short-term borrowings	(25)	(10)	(35)	4	60	64
Secured borrowings	(14)	(42)	(56)	68	11	79
Long-term debt	20	(25)	(5)	169	(34)	135
Total interest expense	(216)	(543)	(759)	241	344	585
Total net interest income	(Won) (517)	(Won) (158)	(Won) (675)	(Won) 250	(Won) (88)	(Won) 162

Exchange Rates

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 29, 2006, which was (Won)930.0 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 27, 2007, the noon buying rate was (Won)927.4 = US$1.00.

	Won per U.S. dollar (noon buying rate) Low	High	Average[(1)]	Period-End
2002	(Won) 1,160.6	(Won) 1,332.0	(Won) 1,242.0	(Won) 1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004	1,035.1	1,195.1	1,139.3	1,035.1
2005	997.0	1,059.8	1,023.8	1,010.0
2006	913.7	1,002.9	954.3	930.0
2007 (through June 27)				
January	925.4	942.2	936.8	941.0
February	932.5	942.3	936.9	942.3
March	937.2	949.1	942.9	941.1
April	926.1	937.0	930.7	931.0
May	922.3	934.0	927.6	927.4
June (through June 27)	926.1	932.3	928.2	927.4

Source: Federal Reserve Bank of New York.

(1) The average of the daily noon buying rates of the Federal Reserve Bank in effect during the relevant period (or portion thereof).

Item 3B. ***Capitalization and Indebtedness***
Not Applicable

Item 3C. ***Reasons for the Offer and Use of Proceeds***
Not Applicable

Item 3D. ***Risk Factors***
Risks relating to our retail credit portfolio

Future changes in market conditions as well as other factors may lead to increases in delinquency levels of our retail loan portfolio.

In recent years, consumer debt has increased rapidly in Korea. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, has grown from (Won)60,506 billion as of December 31, 2001 to (Won)85,571 billion as of December 31, 2006. As of December 31, 2006, our retail loans represented 56.5% of our total lending. Within our retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans is often unsecured and therefore tends to carry a higher credit risk, has decreased from (Won)23,312 billion as of December 31, 2001 to (Won)21,589 billion as of December 31, 2006; as a percentage of total outstanding retail loans, such balance has also decreased from 38.5% as of December 31, 2001 to 25.2% as of December 31, 2006. The growth of our retail lending business, which generally offers higher margins than other lending activities, contributed significantly to our interest income and profitability in recent years. Although the size of our retail portfolio decreased in 2005 due to increased delinquencies in 2003 and 2004, heightened competition and government regulation in the retail loan lending segment, in 2006 our retail portfolio increased primarily as a result of increases in mortgage and home equity loans.

The growth of our retail loan portfolio in prior years led to significant increases in delinquency levels in 2003 and 2004, although delinquency levels stabilized starting in 2005. Higher delinquencies in 2003 and 2004 required us to increase our loan loss provisions and charge-offs, which in turn adversely affected our financial condition and results of operations. While our non-performing retail loans (defined as those that are over 90 days past due) decreased from (Won)1,046 billion as of December 31, 2001 to (Won)628 billion as of December 31, 2006 due to the relative stabilization of delinquency levels from 2005, there is no assurance that delinquency levels for our retail loans will not rise in the future.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties in the Korean economy that have an adverse effect on Korean consumers could result in reduced growth and further deterioration in the credit quality of our retail loan portfolio. In order to minimize our risk as a result of such exposure, we are continuing to strengthen our risk management processes, including further improving the retail lending process, upgrading our retail credit rating system, as well as strengthening the overall management of our portfolio. Despite our efforts, however, there is no assurance that we will be able to prevent significant credit quality deterioration in our retail loan portfolio.

Until 2004, our credit card operations recorded losses, and may again generate losses in the future, which could hurt our financial condition and results of operations.

In September 2003, we merged Kookmin Credit Card, our credit card subsidiary, into us in response to its liquidity problems stemming from the deteriorating asset quality of its credit card portfolio. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and

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liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill. Following the merger, our credit card operations continued to record significant additional net losses through the first three quarters of 2004. This was primarily due to high delinquency levels and substantial charge-offs and loan loss provisions. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 20.6%, 21.6%, 8.42%, 5.8% and 4.81% as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively. While our strengthened risk management efforts have resulted in recent decreases in the delinquency ratio, credit card delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea and the inability of Korean consumers to manage increased household debt, as reflected in the persistent practice among some credit cardholders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We have discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2006, these restructured loans outstanding amounted to (Won)135 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans, outstanding balances overdue by one day or more accounted for 5.85% of our credit card receivables (including credit card loans) as of December 31, 2006.

Despite our recent successful efforts to improve our credit card asset quality and performance, we may again experience losses on our credit card operations in the future, which may adversely affect our overall financial condition and results of operations.

Risk relating to our small- and medium-sized enterprise loan portfolio

We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking). We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)41,498 billion as of December 31, 2006. During that period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,451 billion, although the non-performing loan ratio for such loans decreased from 3.6% as of December 31, 2001 to 3.5% as of December 31, 2006. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean commercial banks to small- and medium-sized enterprises was 1.2% as of December 31, 2006. As of December 31, 2006, the delinquency ratio for loans to small- and medium-sized enterprises was calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are overdue by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won-currency loans on a Korean GAAP basis decreased from 3.3% as of December 31, 2001 to 1.04% as of December 31, 2006 but may rise again in the future. From January 1, 2007, the delinquency ratio for small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Accordingly, we are taking measures to stem rising delinquencies in our loans to small- and medium-sized enterprises, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of small- and medium-sized enterprise borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as construction, hotels, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for our loans to small- and medium-sized enterprises will not rise in the future.

Among other things, aggressive marketing and intense competition among banks in the small- and medium-sized enterprise lending market contributed to a deterioration in profitability and in the asset quality of our loans to this segment, especially in 2003 and 2004. Such deterioration also led to increased charge-offs and higher provisioning and reduced interest and fee income from this segment during such periods. The ability of our small- and medium-sized enterprise customers to service their debt may be further undermined by adverse economic developments in the future, including sustained high levels of oil prices and other raw material costs or the continued strength of the Won leading to reduced competitiveness for exported Korean goods, which may lead to further deterioration in the asset quality of our loans to such customers. In addition, many small- and medium-sized enterprises have close business relationships with the largest Korean commercial conglomerates, known as *chaebols*, primarily as suppliers. Any difficulties encountered by those *chaebols* would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

A substantial part of our small- and medium-sized enterprise lending comprises loans to small office/home office customers, or SOHOs. Many of these SOHOs represent sole proprietorships, individual business interests or very small corporations and are usually dependent on a limited number of suppliers or customers. SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although we are making efforts to improve our internally developed credit rating systems to rate potential borrowers, we do not have a substantial history of experience with SOHOs and are less able to judge the level of risk inherent in these customers. Accordingly, although we intend to manage our exposure to these borrowers closely in order to prevent any deterioration in the asset quality of our loans to this segment, we may not be able to do so.

Risks relating to our strategy

Although increasing our fee income is an important part of our strategy, we may not be able to do so.

We have historically relied on interest income as our primary revenue source. While we have developed new sources of fee income as part of our business strategy, our ability to increase our fee income and thereby reduce our dependence on interest income will be affected by the extent to which our customers generally accept the concept of fee-based services. The willingness of customers to pay fees in return for value-added financial services has not been broadly tested in the Korean market and their reluctance to do so will adversely affect the implementation of this aspect of our strategy.

In March 2007, we reduced or waived many of the fees we charge on our banking services, in response to customer demand. Specifically, we reduced or waived our fees on fund transfers through our Internet, mobile and telephone banking services, as well as on transfers and after-hour withdrawals through ATMs. We also reduced our wire transfer fees and eliminated the fees we charge on issuance of bankers checks and certain tax-related statements. These measures may result in a significant reduction in our banking-related fee income.

We may suffer customer attrition or our net interest margin may decrease as a result of our competition strategy.

We have been pursuing, and intend to continue to pursue, a strategy of maintaining or enhancing our margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy, we will need to maintain relatively low interest rates on our deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, we may suffer customer attrition due to rate sensitivity. In addition, we may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in our net interest margins. Any future decline in our customer base or our net interest margins as a result of our future competition strategy could have an adverse effect on our results of operations and financial condition.

Risks relating to competition

Competition in the Korean banking industry is intense, and we may experience declining market share as a result.

We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to the asset quality deterioration in consumer and small- and medium-sized enterprise loans, and they are engaged in aggressive marketing campaigns and making significant investments in these segments. In addition, the profitability of our retail and credit card operations may decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004 and Standard Chartered Bank s acquisition of Korea First Bank in 2005, as well as Chohung Bank s merger with Shinhan Bank in April 2006. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

We face full competition with respect to our mortgage business, which may result in a further decrease of our market share and adversely affect our margins.

We were formed through a merger between the former Kookmin Bank and H&CB in 2001. Until 1997, by law, H&CB was the only financial institution in Korea that could offer a full range of mortgage products. Among other things, it had the exclusive ability to offer mortgages with terms longer than ten years, provide housing-related deposit accounts and offer preferential rights to subscribe for newly built apartments.

In 1997, the laws giving H&CB exclusive rights to offer these mortgage-related products began to be repealed. By March 2000, all commercial banks in Korea could offer a full range of mortgage products, and H&CB began to lose market share. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. While we continue to hold the largest share of this market, we may not be able to maintain our market share or margins with respect to mortgage lending in the face of increased competition. Any decrease in such market share or margins may adversely affect our financial condition and results of operations.

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Risks relating to our large corporate loan portfolio

We have exposure to chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2006, eight were to companies that were members of the 36 largest *chaebols* in Korea. As of that date, the total amount of our exposures to the 36 largest *chaebols* was (Won)11,005 billion, or 6.0% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Exposure to Chaebols.

We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.

As of December 31, 2006, our loans and guarantees to companies that were in workout or court-supervised restructuring (including composition and corporate reorganization) amounted to (Won)701 billion or 0.4% of our total loans and guarantees, of which (Won)295 billion or 42.1% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for losses on these loans and guarantees amounted to (Won)274 billion, or 39.1% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Our exposures with respect to such securities as of December 31, 2006 to companies in workout or court-supervised restructuring (including composition and corporate reorganization) amounted to (Won)843 billion, or 0.5% of our total exposures. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (as well as 75% or more of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

Our current allowances for losses on loans and guarantees to construction companies may not be sufficient to cover all future related losses.

We have established allowances for losses on loans and guarantees to construction companies that we consider to have a greater likelihood of becoming non-performing. As of December 31, 2006, we had loans and guarantees outstanding to construction companies in the amount of (Won)6,697 billion, or 4.3% of our total loans and guarantees, of which (Won)242 billion or 3.6% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to (Won)144 billion, or 59.5% of the amount classified as substandard or below, and 2.2% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises. These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies.

A large portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2006, our loans and guarantees to our 20 largest borrowers totaled (Won)8,570 billion and accounted for 5.5% of our total loans and guarantees. As of that date, our single largest corporate credit exposure

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was to Hyundai Heavy Industries, to which we had outstanding credit exposures (all of which was in the form of guarantees and acceptances) of (Won)1,472 billion, representing 0.9% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

Other risks relating to our business

We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 40% to 60% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures recently adopted by the Korean government to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to losses.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold at the time of any sale of such securities.

As of December 31, 2006, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) with a total book value of (Won)2,847 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur losses.

We may be assessed additional income taxes in respect of prior years as a result of a tax audit by the National Tax Service of Korea.

During the first half of 2007, the National Tax Service of Korea completed a tax audit in respect of us for the fiscal years 2002, 2003, 2004 and 2005, as a result of which we were assessed (Won)190 billion for tax deficiencies. We recorded the entire amount of the additional income tax in our consolidated financial statements as of December 31, 2006 as Income Tax Expenses and Other Liabilities in accordance with SFAS No. 5 Accounting for Contingencies and have paid a substantial portion of such additional tax in June 2007. We plan to appeal such assessment to the National Tax Tribunal. The National Tax Service of Korea is also reviewing whether to assess additional income taxes for prior years based on its tax audit, and the amount of any such additional tax assessment may be significant.

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have an adverse effect on our results of operations.

We manage a number of money trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank s general banking operations. Those assets are not available to satisfy the claims of a bank s depositors or other creditors of its general banking operations. For some of the trust accounts we manage, we have guaranteed the principal amount of the investor s investment. Since January 2004, banks have been prohibited from providing new trust accounts that guarantee the principal amount of investments, other than certain retirement trust and annuity trust products. However, we will continue to provide guarantees with respect to existing accounts, which contain the aforementioned guarantee provisions.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from such trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2006, we had (Won)60 billion as special reserves in trust account assets for which we provided guarantees of principal. There were no significant transfers from general banking operations to cover deficiencies in guaranteed trust accounts in 2004, 2005 and 2006. However, we may be required to make transfers from our general banking operations to cover shortfalls, if any, in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches or unexpected disruptions in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and have an adverse effect on our business or reputation.

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We may experience disruptions, delays and other difficulties from our information technology systems.

We rely on our information technology systems for our daily operations including customer service, transactions, billing and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers confidence in us.

We do not prepare interim financial information on a U.S. GAAP basis.

Neither we nor our subsidiaries are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See Item 5B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 2002, 2003, 2004, 2005 and 2006 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

Risks relating to liquidity and capital management

A considerable increase in interest rates could decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which, as a result, could adversely affect us.

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates started to rebound in the second half of 2005 and have stabilized in 2006. The vast majority of debt securities we hold pay interest at a fixed rate. However, all things being equal and assuming that the interest rate sensitivity gap of our assets and liabilities is narrow, a considerable increase in interest rates would lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. A considerable rise in interest rates may therefore require us to rebalance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2006, approximately 92.1% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we estimate that increases in our short-term deposits in prior years were attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of our short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yielding investment opportunities emerge. In that event, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

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We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favorable terms or at all.

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2006, our Tier I capital adequacy ratio was 10.07% and our combined Tier I and Tier II capital adequacy ratio was 14.17%, which exceeded the minimum levels required by the Financial Supervisory Commission. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratio deteriorates, we may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our license. For a description of the capital adequacy requirements of the Financial Supervisory Commission, see Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

We may face increased capital requirements under the new Basel Capital Accord.

In June 2006, the Financial Supervisory Service announced that it would implement the new Basel Capital Accord, referred to as Basel II, in Korea beginning on January 1, 2008. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on market risk and capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Our implementation of Basel II may require an increase in our capital requirements, which may require us to either improve our asset quality or raise additional capital.

In addition, under Basel II, we are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. We have voluntarily chosen to establish and follow an internal ratings-based approach, which is more risk-sensitive in assessing our credit risk capital requirements. For regulatory reporting purposes, we are planning to implement a Foundation Internal Ratings-based Approach for credit risk and a standardized approach for operational risk from January 1, 2008, with the Advanced Internal Ratings-based Approach and Advanced Measurement Approach being implemented for credit risk and operational risk, respectively, from January 2009. For internal measurement purposes, we began to implement the Advanced Internal Ratings-based Approach for credit risk and Advanced Measurement Approach for operational risk commencing in 2007. We recently conducted a Quantitative Impact Study (or QIS) as of December 31, 2006, in accordance with instructions from the Financial Supervisory Service. The results of the QIS indicated that our capital adequacy ratio increased under the internal ratings-based approach, whereas our capital adequacy ratio decreased marginally under the standardized approach. Such QIS results, however, are based on preliminary data, and it is possible that our internal ratings-based approach may require an increase in our credit risk capital requirements, which may require us to either improve our asset quality or raise additional capital. Furthermore, the supervisory accreditation of our internal ratings-based approach will not be determined until the second half of 2007, and more detailed and reliable analysis of the impact of the implementation of Basel II will not be available until the second half of 2007 when we begin the parallel measurement of our capital adequacy ratios under both our previous approach under the initial Basel Capital Accord of 1988 and our new Basel II approaches.

See Item 5A. Operating Results Overview New Basel Capital Accord and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

Risks relating to government regulation and policy

New loan loss provisioning guidelines implemented by the Financial Supervisory Commission may require us to increase our provisioning levels under Korean GAAP, which could adversely affect us.

In recent years, the Financial Supervisory Commission has implemented changes to the loan loss provisioning requirements applicable to Korean banks under Korean GAAP, which have resulted in increases to the Bank s provisions and have adversely impacted the Bank s reported results of operations and financial condition under Korean GAAP. Until 2004, the requirement to establish allowances for possible losses in respect of confirmed acceptances and guarantees applied only to those classified as substandard or below. Commencing in the second half of 2005, the requirement was extended to cover confirmed acceptances and guarantees classified as normal or precautionary, as well as unconfirmed acceptances and guarantees and bills endorsed. Similarly, until 2004, the requirement to establish other allowances in respect of unused credit lines applied only to the unused credit limit for cash advances on active credit card accounts, defined as those with a transaction recorded during the past year. Commencing in the second half of 2005, the requirement was extended to cover the unused credit limit for credit card purchases on active accounts, as well as the unused credit limit on consumer and corporate loans. These changes resulted in a significant increase in our allowance for acceptances and guarantees and other allowances under Korean GAAP, and a corresponding decrease in our income before income tax under Korean GAAP, in 2005.

Furthermore, in the second half of 2006, the Financial Supervisory Commission increased the minimum required provisioning levels applicable to loans, confirmed and unconfirmed acceptances and guarantees, bills endorsed and unused credit lines that are classified as normal and precautionary. The Financial Supervisory Commission also extended the requirement to establish other allowances on unused credit lines to cover inactive credit card accounts. These changes resulted in a significant increase in our allowance for loan losses, allowance for acceptances and guarantees and other allowances under Korean GAAP, and a corresponding decrease in our income before income tax under Korean GAAP, in 2006.

In addition, in November 2004, the Financial Supervisory Commission announced that it will implement new loan loss provisioning guidelines by the end of 2007 under which Korean banks will take into account expected losses with respect to credits in establishing their allowance for loan losses, instead of establishing such allowances based on the classification of credits under the current asset classification criteria. Under the new guidelines, all Korean banks were advised to establish systems to calculate their expected losses based on their historical losses during 2005. The Financial Supervisory Commission also announced that Korean banks could voluntarily comply with the new loan loss provisioning guidelines commencing in 2005. Specifically, in the second half of 2005, banks that had implemented a credible internal system for evaluating expected losses could establish their allowance for loan losses based on their historical losses, so long as the total allowance for loan losses established exceeded the levels required under the asset classification-based provisioning guidelines. Similarly, in the first half of 2006, banks that had implemented a credible system for evaluating expected losses could establish their allowance for loan losses based on such expected losses, so long as the total allowance established exceeded required levels. We complied with the new guidelines and implemented a system for evaluating expected losses in establishing our allowance for loan losses. However, the Financial Supervisory Commission has not since released any further details regarding the new guidelines, and it is unclear whether such new guidelines will be implemented at the end of 2007 as previously announced. Full compliance with the new guidelines may increase our provisions for loan losses under Korean GAAP compared to previous levels established under the asset classification-based provisioning guidelines.

Any future required increases in our provisions for loan losses under Korean GAAP could have an adverse effect on our reported results of operations and financial condition under Korean GAAP and our reported capital adequacy ratio, which in turn may adversely affect the market price of our common stock and ADSs.

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Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may adversely affect our retail banking operations.

In light of concerns regarding the potential risks of excessive retail lending, particularly mortgage and home equity lending, the Korean government has in recent years adopted more stringent regulations with respect to retail lending by Korean banks. For example, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which included:

- building more residential apartments and houses;
- enforcing more stringent supervision of property speculation; and
- increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has also expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary. For example, in 2004, 2005 and 2006, the Korean government has:

- raised the residential property tax applicable to residential properties in cases where such property represents the third or more residential property owned by a single individual;
- placed a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties;
- amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be devoted to the construction of rental residential properties;
- adopted more stringent guidelines that require financial institutions to impose debt-to-income ratio limits on customers, in addition to loan-to-value ratio requirements, in connection with mortgage loans for real estate located in areas of wide-spread real property speculation or excessive investment;
- issued unofficial guidance recommending that Korean banks further limit their mortgage and home equity lending; and
- adopted new measures to increase the supply of residential properties, including long-term residential lease properties.

See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans.

These regulations and measures, as well as any similar regulations that the Korean government may adopt in the future, may have the effect of constraining the growth and profitability of our retail banking operations, especially in the area of mortgage and home equity lending. Furthermore, these regulations and measures may result in substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity lending. See Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

Government regulation of the credit card business has increased significantly in recent years, which may hurt our credit card operations.

Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in prior years, the Korean government has heightened its regulatory oversight of the credit card industry. From mid-2002

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through early 2003, the Ministry of Finance and Economy and the Financial Supervisory Commission adopted a variety of amendments to existing regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in volumes for certain types of credit card loans, increased minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also implemented a number of changes to the rules governing the evaluation and reporting of credit card balances and delinquency ratios, as well as procedures governing which persons may receive credit cards. For more details relating to these regulations, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

The Korean government may adopt further regulatory changes in the future that affect the credit card industry. Depending on their nature, such changes may adversely affect our credit card operations, by restricting its growth or scope, subjecting it to stricter requirements and potential sanctions or greater competition, constraining its profitability or otherwise.

The fee income that we receive from the Korean government for acting as one of the managers of the National Housing Fund may be reduced if the Korean government designates additional financial institutions as managers or changes the basis of calculating fund management fees.

The National Housing Fund is a government fund that provides housing loans to low-income households and construction loans to fund projects to build small-sized housing. From 1981 until 2001, H&CB solely managed the operations of the National Housing Fund and received a monthly management fee. We have managed the fund since our formation as a result of the merger between the former Kookmin Bank and H&CB. In 2006, we received total management fees of (Won)172 billion.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund was amended to provide that the Ministry of Construction and Transportation is to designate the institution that will perform this function. In November 2002, the ministry designated two other financial institutions as managers, together with us, of the National Housing Fund with a view to diversifying its management. In February 2003, the ministry changed the basis of calculating fees related to the National Housing Fund and, in March 2006, appointed an independent consultant to advise on further changes to the basis of calculating such fees and the designation of institutions to manage the National Housing Fund. If any future changes to the basis of calculating fees results in lower management fees or if the ministry decides to designate additional institutions to manage the National Housing Fund, our fee income from managing it will be reduced compared to current levels, which in turn may have an adverse effect on our results of operations.

Furthermore, in November 2003, the Ministry of Construction and Transportation strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they have clear responsibility for non-performing National Housing Fund loans or where losses result due to their negligent management. As a result, we may in the future be required to reimburse the National Housing Fund for its losses, including those that relate to the deterioration of the credit quality of its loans, to the extent such losses are deemed to have resulted from our negligence in managing the fund.

The Korean government from time to time provides policy loans, which we may choose to accept, and may announce policies involving the participation of financial institutions, including us, in providing financial support for particular sectors.

The Korean government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The government has in this manner provided policy loans intended to promote mortgage lending to low-income individuals and lending to small- and medium-sized enterprises. All loans or credits we choose to make pursuant to these policy loans would be subject to review in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such loans from the government.

In the past, the Korean government has also announced policies under which financial institutions in Korea may voluntarily choose to provide financial support to particular sectors, including remedial programs for troubled corporate borrowers. For example, in light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things, requesting banks and other financial institutions to agree to extend the maturity of debt securities of credit card companies that they held and to make contributions to mutual funds to enable them to purchase debt securities of credit card companies.

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

The Korean government is seeking to enact the proposed Financial Investment Services and Capital Market Act, which may intensify competition in the Korean banking industry.

Since 2006, the Korean government has been seeking to adopt a new law relating to the integration and rationalization of the Korean capital markets and financial investment products industry. The proposed law, which is named the Financial Investment Services and Capital Market Act, is expected to be adopted in 2008. If the law is adopted in its proposed form, we and other banks in Korea may face greater competition in the Korean financial services market from securities companies and other non-bank financial institutions. For example, securities companies currently are not permitted to accept deposits other than for purposes of securities investment by customers and may not provide secondary services in connection with securities investments such as settlement and remittance relating to such deposits. However, under the proposed new law, financial investment companies, which will replace the current securities companies, among others, will be able to provide such secondary services. Accordingly, we and other banks in Korea may experience a loss of customer deposits (which in turn may result in a need to seek alternative funding sources and an increase in our funding costs), as well as a decrease in our settlement and remittance service fee income.

Risks relating to Korea

Escalations in tensions with North Korea could have an adverse effect on us and the market price of our ADSs.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea s weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications. In return, the other five parties in the six-party talks agreed to provide 50,000 tons of heavy fuel oil to North Korea in the initial phase of their energy assistance.

There can be no assurance that the February 2007 accord will be implemented as agreed or that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, including a breakdown of high-level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

Unfavorable financial and economic developments in Korea may have an adverse effect on us.

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which the country took several years to recover.

The economic indicators in 2004, 2005 and 2006 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices, the general weakness of the global economy and the possibility of an outbreak of avian flu in Asia and other parts of the world have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy for some time. Any future deterioration of the Korean or global economy could adversely affect our financial condition and results of operations.

Developments that could hurt Korea s economy in the future include:

- financial problems relating to *chaebols*, or their suppliers, and their potential adverse impact on the Korean economy;
- failure or lack of progress in restructuring of *chaebols*, the financial industry and other large troubled companies;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain *chaebols*;
- a slowdown in consumer spending and the overall economy;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including a further increase in oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;

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- adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

- social and labor unrest;

- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;

- geo-political uncertainty and risk of further attacks by terrorist groups around the world;

- the recurrence of SARS or an outbreak of avian flu in Asia and other parts of the world;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;

- political uncertainty or increasing strife among or within political parties in Korea;

- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities; and

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea and/or the United States.

Ongoing significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect our results of operations.

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. For example, in the past the Korean government regulated, among other things, lending rates and deposit rates for banks. Regulations also dictated the extent of competition by restricting new entrants and the growth of existing financial institutions, including the opening of new branches. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits) and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. Further liberalization of the financial services industry in Korea could result from the conclusion of a free trade agreement between Korea and the United States in 2007. At the same time, the Korean government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernize the industry and to address specific social and economic issues. In particular, the Korean government has revised the regulations relating to credit cards and household lending as part of its effort to control the potential risks of excessive consumer lending. Continuing regulatory changes in the financial industry will require us to modify our business operations and may adversely affect our results of operations.

Labor unrest in Korea may adversely affect our operations.

Any future economic downturn in Korea or an increase in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistics Office, the unemployment rate increased from 3.3% in 2002 to 3.6% in 2003 and 3.7% in 2004 and 2005. Although the unemployment rate decreased slightly to 3.5% in 2006, an increase in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could

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adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact our business and cause the price of the ADSs to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. Furthermore, in December 2003, we invested approximately 121 million Singapore dollars for an approximately 25% interest in Sorak Financial Holdings, which acquired an approximately 57% interest in Bank Internasional Indonesia, and we may make similar investments outside Korea in the future. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets in which we may invest, or that such events will not have an adverse effect on our business or the price of our common stock and ADSs.

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a nationwide bank such as us, with the exception of certain stockholders that are non-financial group companies, whose applicable limit is 4.0%. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies are exempt from this limit, and investors may also exceed the 10.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds that limit, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal.

A holder of our ADSs may not be able to exercise dissent and appraisal rights unless it has withdrawn the underlying shares of our common stock and become our direct stockholder.

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

A holder of our ADSs may be limited in its ability to deposit or withdraw common stock.

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

(1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

(2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

(A) our consent with respect to such deposit has been obtained; or

(B) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit to the extent that, after the deposit, the number of deposited shares does not exceed 115,840,996 shares or any other number of shares we determine from time to time, unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the stock again to obtain ADSs.

A holder of our ADSs will not have preemptive rights in some circumstances.

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

Similarly, holders of our common stock located in the United States may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

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Dividend payments and the amount a holder of our ADSs may realize upon a sale of its ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Our common stock is listed on the Stock Market Division of the Korea Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder of our ADSs will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that it would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

The market value of an investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the Stock Market Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the 1990 s, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak for the decade of 1,138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. On June 27, 2007, the KOSPI closed at 1,733.10. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 10D. Exchange Controls General.

Other Risks

A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion

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of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

Item 4A. *History and Development of the Company*

Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-2073-8341. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

History of the Former Kookmin Bank

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small- and medium-sized enterprises. See Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking for an exact definition of small- and medium-sized enterprises. In September 1994, we completed our initial public offering in Korea and listed our shares on the Stock Market Division of the Korea Exchange.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses. Following the repeal, however, under our articles of incorporation at that time, only up to 20% of our total Won-currency loans outstanding was allowed to be made to large businesses. Currently, under our articles of incorporation, financial services to individuals and small- and medium-sized enterprises (including mortgage lending) are required to be equal to or more than 60% of the total amount of our loans denominated in Won.

In June 1998, we acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DaeDong Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We assumed 519 out of 1,740 employees and 49 out of 108 branches of DaeDong Bank. As of the date of the acquisition, there was a net shortfall of (Won)1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition.

In December 1998, we merged with the Korea Long Term Credit Bank, which focused on providing large corporate banking services. Through this acquisition, we were able to selectively expand our large corporate business, while continuing to concentrate on the retail sector. This expansion resulted in increased product and service offerings, including wholesale deposits, corporate overdraft facilities, bills and receivables discounting, export/import financing, payment remittances, foreign exchange transactions, standby letters of credit and guarantees and acceptances.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank as a result of an investment of US$500 million in new

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common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. Goldman Sachs Capital Koryo subsequently sold substantially all of the shares of our common stock it owned (including common stock obtained upon conversion of the convertible bonds) in June 2002 and November 2003.

History of H&CB

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20% of H&CB s lending (excluding lending pursuant to government programs) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In June 1998, H&CB acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DongNam Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. H&CB assumed 650 out of 1,661 employees and 49 out of 116 branches of DongNam Bank. As of the date of the DongNam Bank acquisition, there was a net shortfall of (Won)1,453 billion between the value of the assets it acquired and the value of the liabilities it assumed. As in the case of the former Kookmin Bank, H&CB received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition. The acquisition of DongNam Bank strengthened H&CB s business presence in the southeastern region of Korea where DongNam Bank was based.

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB s outstanding common shares. As of December 31, 2006, ING Groep N.V. beneficially owned 4.06% of our outstanding common stock.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Bank N.V. As a result:

- the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

- ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger; and

- each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management Co., Ltd. (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

For more details regarding our relationship with ING Groep N.V., see Item 4B. Business Overview Other Businesses Bancassurance, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

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The Merger of the Former Kookmin Bank and H&CB

In November 2000, the former Kookmin Bank and H&CB entered into discussions regarding a possible merger. On December 22, 2000, the two banks entered into a memorandum of understanding regarding the merger. The proposed merger was publicly announced in Korea on that date. On April 23, 2001, the two banks executed a merger agreement approved by their respective boards of directors. The merger was structured as a merger of the two banks into a new entity in order to ensure that the transaction was properly understood by the security holders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption by one bank of the other. Under U.S. GAAP, however, the former Kookmin Bank was deemed the accounting acquiror of H&CB in the merger. We accounted for the acquisition using the purchase method of accounting.

On September 29, 2001, the merger proposal was approved by the stockholders of both banks at extraordinary general meetings called for that purpose. The merger became effective on November 1, 2001. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Our ADSs were listed on the New York Stock Exchange on November 1, 2001 and our common shares were listed on the Stock Market Division of the Korea Exchange on November 9, 2001. As of October 31, 2001, H&CB s total assets were (Won)67,399 billion, its total deposits were (Won)51,456 billion, its total liabilities were (Won)64,537 billion and it had stockholders equity of (Won)2,849 billion. As required by U.S. GAAP, we recognized H&CB s total assets and liabilities at their estimated fair values of (Won)68,329 billion and (Won)64,840 billion, respectively. These amounts reflect the recognition of (Won)562 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed.

At the time of the merger, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares and 119,922,229 shares of our common stock to holders of former H&CB shares. The merger ratio was such that holders of former Kookmin Bank common stock received one of our shares for every 1.688346 shares of former Kookmin Bank they owned, and holders of H&CB common stock received one of our shares for every share of H&CB common stock they owned.

In December 2003, the Korean government sold all of our common stock it held to us, through an auction process in which we were chosen as the winning bidder. We subsequently sold all of these shares in an over-the-counter transaction in June 2005.

The Merger with Kookmin Credit Card

On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card, previously a 75% owned and consolidated subsidiary. On July 23, 2003, our board approved the merger with Kookmin Credit Card and on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, we merged with Kookmin Credit Card.

The merger was effected by the issuance of 8,120,431 shares of our common stock, and the former minority shareholders of Kookmin Credit Card received 0.442983 shares of our common stock for every one share of Kookmin Credit Card common stock that they owned and cash instead of fractional shares that they would have otherwise been entitled to receive in the merger. Immediately following the merger, former shareholders of Kookmin Credit Card common stock, other than us, owned approximately 2.4% of our outstanding common stock. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill.

The goals of this merger were to:

- alleviate the difficulties that Kookmin Credit Card was experiencing with respect to its liquidity and capital adequacy;
- maximize management efficiency and further enhance our credit card business;
- assist us in developing a leading credit card business in Korea;

enable us to effectively cross-sell our financial products by integrating our database; and

develop and launch products and services that integrated our credit card and banking businesses.

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Item 4B. Business *Business Overview*

We are the largest commercial bank in Korea. As of December 31, 2006, we had total assets of (Won)192,978 billion and total deposits of (Won)129,540 billion. On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined network of 1,132 branches as of December 31, 2006, the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2006, we had a customer base of over 25 million retail customers, which represented approximately one-half of the Korean population. Of the population in Korea between the ages of 20 and 40, approximately two-thirds have accounts with us. As of December 31, 2006, we also had over 125,000 small- and medium-sized enterprise customers.

The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2006 retail loans, credit card loans and credit card receivables accounted for 62.4% of our total loan portfolio:

	As of December 31,					
	2004		2005		2006	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity [1]	(Won) 57,965	42.0%	(Won) 59,143	42.9%	(Won) 63,982	42.3%
Other consumer [2]	25,963	18.8	23,114	16.7	21,589	14.2
Total retail	83,928	60.8	82,257	59.6	85,571	56.5
Credit card	9,421	6.8	8,369	6.1	8,955	5.9
Corporate	43,657	31.6	46,157	33.4	56,096	37.1
Capital markets activities and international banking	1,118	0.8	1,229	0.9	781	0.5
Total loans	(Won) 138,124	100.0%	(Won) 138,012	100.0%	(Won) 151,403	100.0%

(1) Includes (Won)1,186 billion, (Won)1,174 billion and (Won)1,137 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2004, 2005 and 2006, respectively.

(2) Includes (Won)9,062 billion, (Won)7,620 billion and (Won)7,481 billion of overdraft loans as of December 31, 2004, 2005 and 2006, respectively.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea. We are also one of the managers of the National Housing Fund, a government fund that provides housing loans to low income households and loans to construction companies to build small-sized housing for low income households.

Lending to small- and medium-sized enterprises is the single largest component of our non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the newest categories being collateralized loans to

SOHO customers that are among the smallest of the small- and medium-sized enterprises. The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network.

In keeping with industry trends, our credit exposure to large corporate customers is declining as a percentage of our total loan portfolio although we continue to maintain and to seek quality relationships and to expand them by providing these customers with an increasing range of fee-related services.

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly, particularly in 2001 and 2002 as the nationwide trend towards credit card use accelerated. As of December 31, 2006, we had more than 9 million holders of KB Card.

Strategy

Our strategic focus is to be the leading bank in Korea and a world-class financial service provider. We plan to continue to develop our business on the basis of our core strengths in mortgage financing and retail banking. We believe our strong market position is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

Identifying, targeting and marketing to attractive customer segments and providing superior customer value and service to such segments

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, we have increasingly targeted specific market segments that we expect to generate superior growth and profitability. We will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, we intend to increase our wallet share of superior existing customers by using our advanced customer relationship management technology to better identify and meet the needs of our most creditworthy and high net worth customers, on whom we intend to concentrate our marketing efforts. We estimate that there are approximately 6 million people who fall into this category in Korea, and we aim to cross-sell our loan and other products to those customers who have an account with us.

As part of this strategy, we are also focusing on attracting and retaining creditworthy customers by offering more differentiated fee-based products and services that are tailored to meet their specific needs. The development and marketing of our products and services are, in part, driven by customer segmentation to ensure we meet the needs of each customer segment. For instance, we currently offer customized mortgage products and electronic banking promotions, and have enhanced our private banking services for high net worth individuals, including opening new branches specializing in such services. We also continue to develop more complex financial products, including trust commodities and other investment products, for which consumer demand has increased in recent years. We are also focusing on addressing the needs of our customers by providing the highest-quality products and services and developing an open-architecture strategy, which allows us to sell such products through the largest branch network in Korea. In short, we aim to offer our customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific banking needs. We believe such differentiated, comprehensive services and cross-selling will not only enhance customer loyalty but also increase profitability.

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One of our key customer-related strategies continues to be creating greater value and better service for our customers. We intend to continue improving our customer service, including through:

Improved customer relationship management technology. Management has devoted substantial resources toward development of our customer relationship management system, which is designed to provide our employees with the needed information to continually improve the level of service and incentives offered to our preferred customers. Our system is based on an integrated customer database, which allows for better customer management and streamlines our customer reward system. We have also developed state-of-the-art call centers and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. Our goals are to continually focus on improving customer service to satisfy our customer s needs through continuing efforts to deliver new and improved services and to upgrade our customer relationship management system to provide the best possible service to our customers in the future.

Enhanced distribution channels. We also believe we can improve customer retention and usage rates by increasing the range of products and services we offer and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centers, mobile-banking and Internet banking. We believe that our leading market position gives us a competitive advantage in developing and enhancing our distribution capabilities.

Focusing on expanding and improving credit quality in our corporate lending business

We plan to focus on corporate lending as one of our core businesses through attracting top-tier corporate customers and providing customized and distinctive products and services to build our position as a leading bank in the corporate financial market. To increase our market share in providing financial services to the corporate market, we intend to:

promote a more balanced and strengthened portfolio with respect to our corporate business by developing our large corporate customer base and utilizing our improved credit management operations to better evaluate new large corporate and small- and medium-sized enterprise customers;

develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk such as cyber branch products to large corporate customers and cyber CEO products to small- and medium-sized enterprise customers;

generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products;

further develop and train our core professionals with respect to this market, including through programs such as the career development path ;

strengthen our marketing system based on our accumulated expertise in order to attract top-tier corporate customers; and

focus on enhancing our channel network in order to provide the best service by strengthening our corporate customer management.

Strengthening internal risk management capabilities

We believe that ensuring strong asset quality through effective credit risk management is critical to maintaining stable growth and profitability and risk management will continue to be one of our key focus areas. One of our highest priorities is to improve our asset quality and more effectively price our lending products to take into account inherent credit risk in our portfolio. Our goal is to maintain the soundness of our credit portfolio, profitability and capital base. To this end, we intend to continue to strengthen our internal risk

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management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we have undertaken the following initiatives:

Strengthening underwriting procedures with advanced credit scoring techniques. We have centralized our credit management operations into our credit group. Our prior structure had divided such operations into four groups and ten teams. As a result of such centralization, we aim to enhance our credit management expertise and improve our system of checks-and-balances with respect to our credit portfolio. We have also improved our ability to evaluate the credit of our small- and medium-sized enterprise customers through assigning experienced credit loan officers to our regional credit offices. We have also introduced a policy requiring the same officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which will enhance expertise and improve efficiency and accountability of such officer, while enabling us to maintain a consistent credit policy. We have also, as a general matter, implemented enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our asset quality through improvement of our early monitoring systems and collection procedures.

Improving our internal compliance policy and ensuring strict application in our daily operations. We have improved our monitoring capabilities with respect to our internal compliance and providing training and educational programs to our management and employees. We have also implemented strict compliance policies to maintain the integrity of our risk management system.

Cultivating a performance-based, customer-oriented culture that emphasizes market best practices

We believe a strong and dedicated workforce is critical to our ability to offer our customers the highest quality banking services and is integral to our goal of maintaining our position as one of Korea s leading financial service providers. In the past, we have dedicated significant resources to develop and train our core professionals, and we intend to continue to enhance the productivity of our employees, including by regularly sponsoring in-house training and educational programs. We have also been seeking to cultivate a performance-based culture to create a work environment where members of our staff are incentivized to maximize their potential and in which our employees are directly rewarded for superior performance. We intend to maintain a professional workforce whose high quality of customer service reflects our goal to achieve and maintain global best practice standards in all areas of operations.

We plan to establish new mid- to long-term strategies to address changes in our operations and market conditions, including the pending implementation of the Financial Investment Services and Capital Market Act.

Branch Network

As of December 31, 2006, we had 1,132 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. In Korea, retail transactions are generally conducted in cash, although credit card use has increased, and conventional checking accounts are not offered or used as widely as in other countries. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. More than 40% of our branches and sub-branches are located in Seoul, and approximately 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2006:

Area	Number of branches	Percentage
Seoul	458	40.5%
Six largest cities (other than Seoul)	266	23.5
Other	408	36.0
Total	1,132	100.0%

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In addition, we have continued to implement the specialization of branch functions. Of our branch network, 96 branches handle corporate transactions exclusively and are dedicated to providing comprehensive services to our corporate customers.

In order to support our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets known as autobanks. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2006, we had 8,930 ATMs, 161 cash dispensers and 381 passbook printers.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs, including those that only dispense cash:

	For the year ended December 31,		
	2004	2005	2006
Number of transactions (millions)	786	621	675
Fee revenue (in billions of Won)	(Won) 92	(Won) 90	(Won) 89

Retail Banking

Due to our development as a retail bank and the know-how and expertise we have acquired from our activities in that market, retail banking has been and will continue to remain one of our core businesses. Our retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

We offer various loan products that target different segments of the population, with features tailored to each segment s financial profile and other characteristics. The following table sets forth the balances and the percentage of our total lending represented by our retail loans as of the dates indicated:

	As of December 31, (in billions of Won, except percentages)					
	2004		2005		2006	
Retail:						
Mortgage and home equity loans	(Won) 57,965	42.0%	(Won) 59,143	42.9%	(Won) 63,982	42.3%
Other consumer loans [1]	25,963	18.8	23,114	16.7	21,589	14.2
Total	(Won) 83,928	60.8%	(Won) 82,257	59.6%	(Won) 85,571	56.5%

(1) Excludes credit card loans, but includes overdraft loans.

Our retail loans consist of:

Mortgage loans, which are loans made to customers to finance home purchases, construction, improvements or rentals; and *home equity loans*, which are loans made to our customers secured by their homes to ensure loan repayment. We also provide overdraft loans in connection with our home equity loans.

Other consumer loans, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us.

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For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 40% to 60%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower s eligibility for our mortgage loans depends on value of the mortgage property, the appropriateness of the use of proceeds and the borrower s creditworthiness. A borrower s eligibility for home equity loans is determined by the borrower s credit and the value of the property, while the borrower s eligibility for other consumer loans is primarily determined by the borrower s credit. If the borrower s credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower s creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Due to a rapid increase in retail loans and increased credit risks relating thereto, as well as to stabilize the real estate market in Korea, the Financial Supervisory Commission and the Financial Supervisory Service have been adopting more stringent guidelines applicable to mortgage and home equity lending by Korean banks since 2002. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Liquidity Recent Regulations Relating to Retail Household Loans.

Mortgage and Home Equity Lending

Our mortgage and home equity lending has substantially expanded in recent years.

The Housing Finance Market in Korea. The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector, a number of financial institutions and installment finance companies, including us, provide mortgage lending. Prior to 1997, government regulations limited the types of mortgage lending products commercial banks in Korea could offer. These restrictions affected both the terms of mortgages that could be offered as well as eligibility of properties to be mortgaged and persons applying for mortgages. Government restrictions on mortgage lending were largely lifted in 1997, leading to a more competitive mortgage lending market. In 1998, the government promulgated new laws to facilitate asset securitization transactions by Korean banks. Such developments have contributed to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk.

Mortgage and Home Equity Loan Products. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. Although the maximum term of mortgage loans is 35 years, the majority of our mortgage loans have significantly shorter maturities, which may be renewed. Non-amortizing home equity loans have an initial maturity of three years, which may be extended on an annual basis for a maximum of ten years. Home equity loans subject to amortization of principal may have a maximum term of up to 35 years. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

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As of December 31, 2006, 57.2% of our mortgage loans were secured by residential property which is the subject of the loan, 9.3% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 33.5% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended December 31, 2006, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 52.3%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the *jeonsae* system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower s property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower s property. This is in the event that the borrower s property is seized by a creditor, and the renter is no longer able to reside at that property. See Item 3D. Risk Factors Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio. As a result of government initiatives, we have also tightened our mortgage loan guidelines.

Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. We can adjust the price to reflect the borrower s current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.7% to 1.4% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans.

As of December 31, 2006, our current three-month, six-month and twelve-month base rates were 6.00%, 6.01% and 6.13%, respectively.

As of December 31, 2006, 99.6% of our outstanding mortgage and home equity loans was priced based on a floating rate and 0.4% was priced based on a fixed rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2006, approximately (Won)11,706 billion, or 54.2% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and typically have a maturity between one and three years. The amount of overdraft loans as of December 31, 2006 was approximately (Won)7,481 billion.

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Pricing. The interest rates on our other consumer loans are determined on the same basis as on our home equity loans, except that, for unsecured loans, the borrower s credit score as determined during our loan approval process is also taken into account. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management. For overdraft loans, we also add 50 basis points in determining the interest rate.

As of December 31, 2006, 99.6% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-taking Activities

Due to our extensive nationwide network of branches and the merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2006, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was (Won)94,024 billion, (Won)94,817 billion and (Won)89,356 billion as of December 31, 2004, 2005 and 2006, respectively, which constituted 74.5%, 75.4% and 69.0% respectively, of the balance of our total deposits.

We offer many deposit products that target different segments of our retail customer base, with features tailored to each segment s financial profile, characteristics and needs, including:

Demand deposits, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted 3.9% of our total deposits as of December 31, 2006 and paid average interest of 1.76% for 2006.

Time deposits, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the Korea Composite Stock Prices Index (known as KOSPI), or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted 47.8% of our total deposits as of December 31, 2006 and paid average interest of 3.92% for 2006. Most installment savings deposits offer fixed interest rates.

Savings deposits, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 3.3%. Retail and corporate savings deposits constituted 33.8% of our total deposits as of December 31, 2006 and paid average interest of 0.71% for 2006.

Certificates of deposit, the maturities of which range from 30 days to 365 days with a required minimum deposit of (Won)5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

Foreign currency deposits, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. We offer foreign currency time deposits and checking and passbook accounts in ten currencies.

We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our interest earning assets and the interest rates offered by other commercial banks.

We also offer deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

Housing subscription time deposits, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Law.

This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the location of the holder s current residence and the size of the desired apartment unit. These deposit products target high and middle income households.

Housing subscription installment savings deposits, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Law. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

We have a priority customer program called KB Star Club that categorizes our customers by their average deposit balance for the most recent three-month period, the amount of their transactions with us and their program points based on such balances and transactions. A customer may receive preferential treatment in various areas, including interest rates and transaction fees, depending upon how the customer is classified. As of December 31, 2006, we had over three million KB Star Club customers, representing approximately 12.8% of our total retail customer base of over 25 million retail customers. In 2006, on an average balance basis, our KB Star Club customers held approximately 81.1% of our total retail customer deposits, and revenues from our KB Star Club customers accounted for approximately 62.2% of our revenues derived from our retail customers.

In 2002, after significant research and planning, we launched private banking operations at our headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of December 31, 2006, we had established 18 centers (including 1 sub-center) and plan to increase the number of private banking centers as necessary. We believe that by offering high quality personal wealth management services to these customers we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

The Monetary Policy Committee of the Bank of Korea (the Monetary Policy Committee) imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 7%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits, which do not include foreign currency deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a premium rate of 0.2% of our average deposits and we paid (Won)218 billion for 2006.

Credit Cards

Credit cards are another of our core retail products. As a result of the merger with H&CB, for a period of time we issued and operated two brands of credit cards, Kookmin Card and BC Card. Following our merger with our subsidiary, Kookmin Credit Card, in September 2003, we adopted a strategy of trying to unify the two brands. Accordingly, commencing in October 2003, we have been issuing most of our new credit cards under the KB Card brand.

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The following table sets forth certain data relating to our credit card operations. All financial figures appearing below have been prepared in accordance with Korean GAAP, which differs significantly from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Reconciliation with Korean GAAP.

	As of and for the year ended December 31,		
	2004[1]	2005	2006
	(in billions of Won, except number of holders, accounts and percentages)		
Number of credit cardholders (at year end) (thousands)			
General accounts	11,362	9,343	8,883
Corporate accounts	182	159	173
Total	11,544	9,502	9,056
Number of merchants (at year end) (thousands)	1,492	1,507	1,610
Active ratio (at year end) [2]	54.9%	62.7%	68.4%
Credit card fees			
Merchant fees [3]	(Won) 803	(Won) 788	(Won) 868
Installment and cash advance fees	1,388	1,018	864
Annual membership fees	45	41	37
Other fees	401	234	286
Total	(Won) 2,637	(Won) 2,081	(Won) 2,055
Charge volume [4]			
General purchase	(Won) 25,373	(Won) 29,836	(Won) 34,307
Installment purchase	7,520	6,748	7,019
Cash advance	33,456	24,261	19,837
Card loan [5]	2,999	1,002	2,554
Total	(Won) 69,348	(Won) 61,847	(Won) 63,717
Outstanding balance (at year end) [6]			
General purchase	(Won) 1,808	(Won) 2,491	(Won) 2,832
Installment purchase	1,524	1,544	1,740
Cash advance	2,934	2,562	2,348
Card loan [5]	1,378	975	1,748
Total [7]	(Won) 7,644	(Won) 7,572	(Won) 8,668
Average outstanding balances [6]			
General purchase	(Won) 1,804	(Won) 2,045	(Won) 2,564
Installment purchase	2,027	1,479	1,559
Cash advance	3,497	2,689	2,396
Card loan [5]	2,256	1,111	1,338
Delinquency ratios (at year end) [8]			
Less than 1 month	1.48%	1.03%	0.97%
From 1 month to 3 months	3.32	1.70	1.13
From 3 months to 6 months	0.29	0.18	0.27
Over 6 months	0.11	0.11	0.11

Total	5.20%	3.01%	2.47%
Non-performing loan ratio			
Reported	4.55%	2.19%	1.29%
Managed	3.91%	2.05%	1.26%
Write-offs (gross)	(Won) 3,261	(Won) 868	(Won) 496
Recoveries [9]	131	233	236
Net write-offs	(Won) 3,130	(Won) 635	(Won) 260

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	2004[1]	As of and for the year ended December 31, 2005 (in billions of Won, except number of holders, accounts and percentages)	2006
Gross write-off ratio [10]	34.04%	11.85%	6.31%
Net write-off ratio [11]	32.66%	8.67%	3.31%
Asset sales			
Asset securitization [12]	(Won) 1,790	(Won) 810	(Won) 305

(1) Includes data for credit cards issued under the Kookmin Card and BC Card brands prior to September 2004.

(2) The active ratio represents the ratio of accounts used at least once within the last six months to total accounts as of year end.

(3) Merchant fees consist of merchant membership and maintenance fees, costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, bad debt expenses, general variable expenses and other fixed costs that are charged to our member merchants. We charge our member merchants fees that range from 1.0% to 4.5%.

(4) Represents the aggregate cumulative amount charged during the year.

(5) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.

(6) Includes certain interest trust certificates issued by special purpose entities in connection with asset securitization transactions of our underlying credit card balances. Transfers of credit card balances to special purpose entities in connection with asset securitization transactions are recognized as sales under Korean GAAP but not under U.S. GAAP.

(7) The total outstanding balances pursuant to U.S. GAAP for all of our credit cards were (Won)9,421 billion as of December 31, 2004, (Won)8,369 billion as of December 31, 2005 and (Won)8,955 billion as of December 31, 2006.

(8) Represents the ratio of delinquencies to outstanding balance. In line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and have also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2006, these restructured loans amounted to (Won)139 billion. Because these restructured loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances.

(9) Does not include proceeds that we received from sales of our non-performing loans that were written off.

(10) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss. In 2004, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.

(11) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss. In 2004, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.

(12) Comprises credit card balances that were transferred in asset securitization transactions. Under U.S. GAAP, these transfers are not recognized as sales.

The use of credit cards in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the recent financial and economic difficulties and, as a result of government

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initiatives promoting the use of credit cards in Korea. For example, the government requires commercial merchants to accept credit cards as a means of preventing tax evasion by ensuring proper disclosure of transactions and provides tax benefits to businesses that accept credit cards. For consumers, there is also a tax deduction for certain amounts spent using credit cards. However, there has been significant concern in Korea regarding the high levels of credit card usage (including cash advances) and the deteriorating asset quality of credit card portfolios of Korean financial institutions. Commencing in July 2002, the Financial Supervisory Commission increased regulation of the credit card industry. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit cardholders in Korea are generally required to pay for their purchases within approximately 20 to 60 days of purchase depending on their payment cycle. However, we also offer revolving cards to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the terms of repayments. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

We believe that by establishing a unified credit card business through our merger with Kookmin Credit Card and our adoption of the new KB Card brand, we have further enhanced this business by strengthening our risk management and maximizing our operational efficiency. In addition, we believe that our extensive branch network, brand recognition and overall size will enable us to cross-sell products such as credit cards to our existing and new customers.

To promote our credit card business, we offer services targeted to various financial profiles and customer requirements and are concentrating on:

- strengthening cross-sales to existing customers and offering integrated financial services;
- offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;
- offering gold cards, platinum cards and other prime members cards, which have a higher credit limit and provide additional services in return for a higher fee;
- acquiring new customers through strategic alliances and cross-marketing with retailers;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as revolving credit cards, travel services and insurance;
- developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet; and
- issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

As of December 31, 2006, we had more than 9 million cardholders. Of the credit cards outstanding, 68.4% were active, meaning that they had been used at least once during the previous six months. For 2006, our market share with respect to charge volume was 16.4% according to the Financial Supervisory Service.

Our card revenues consist principally of cash advance fees, merchant fees, credit card installment fees, interest income from credit card loans, annual fees paid by cardholders and interest and fees on late payments. Cardholders are generally required to pay for their purchases within 17 to 47 days after the date of purchase, depending on their payment cycle. Except in the case of installment purchases, accounts which remain unpaid after this period are deemed to be delinquent.

We generate other fees through a processing charge on merchants, with the average charge equaling 2.46%.

Under non-exclusive license agreements with MasterCard International Incorporated and Visa International Service Association, we also issue MasterCard and Visa credit cards.

We launched our debit card business in 1996 in response to changing customer needs. We charge merchants an average commission of approximately 1.64% of the amounts purchased using a debit card. We also issue check cards , which are similar to debit cards except that check cards are accepted by all merchants that accept credit cards. Much like debit cards, check card purchases are also debited directly from customers accounts with us. As of December 31, 2006, we had approximately 5.1 million check card holders, who effected check card transactions totaling approximately (Won)2,767 billion in 2006.

Corporate Banking

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2004, 2005 and 2006, we had 155,323, 143,838 and 153,213 small- and medium-sized enterprise borrowers and 713, 679 and 719 large corporate borrowers, respectively. For 2004, 2005 and 2006, we received fee revenue from firm banking services offered to corporate customers, which include inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of (Won)68 billion, (Won)78 billion and (Won)86 billion, respectively. Of our branch network as of December 31, 2006, we had 96 branches dedicated exclusively to corporate banking.

The following table sets forth the balances and the percentage of our total lending represented by our small- and medium-sized enterprise business loans and our large corporate business loans as of the dates indicated, estimated based on our internal classifications of corporate borrowers under Korean GAAP:

	As of December 31,					
	2004		2005		2006	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	(Won) 38,240	27.7%	(Won) 36,344	26.3%	(Won) 41,498	27.4%
Large corporate loans	5,417	3.9	9,813	7.1	14,598	9.7
Total	(Won) 43,657	31.6%	(Won) 46,157	33.4%	(Won) 56,096	37.1%

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposits. Our corporate deposit products can be divided into two general categories: (1) demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and (2) deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from our corporate customers amounted to (Won)32,570 billion as of December 31, 2006, or 25.1% of our total deposits.

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Small- and Medium-sized Enterprise Banking

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses because of both our historical development and our accumulated expertise. In recent years, we have largely focused our corporate banking activities on the small- and medium-sized enterprise market in Korea. We believe that we possess the necessary elements to succeed in the small- and medium-sized enterprise market, including our extensive branch network, our credit rating system for credit approval, our marketing capabilities (which we believe have provided us with significant brand loyalty) and our ability to take advantage of economies of scale.

We use the term small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act and related regulations. The general criterion used to define small- and medium-sized enterprises is either the number of full-time employees (less than 300), paid-in capital (equal to or less than (Won)8 billion) or sales revenues (equal to or less than (Won)30 billion). Criteria differ from industry to industry. In all cases, however, the number of full-time employees may not equal or exceed 1,000.

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2006, working capital loans and facilities loans accounted for 85.5% and 14.5%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2006, we had over 153,000 small- and medium-sized enterprise customers.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or may be unsecured. As of December 31, 2006, secured loans and guaranteed loans accounted for, in the aggregate, 85.0% of our small- and medium-sized enterprise loans. Among the secured loans, 51.7% were secured by real estate and 48.3% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of ten years.

When evaluating the extension of working capital loans, we review the corporate customer s creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral, and may require additional collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous 3.5 years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

We also offer collective housing loans. Our collective housing loans are mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as small- and medium-sized enterprises. We offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors used for working capital purposes, and loans to educational establishments, small- and medium-sized enterprises and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower s creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

A substantial number of our small- and medium-sized enterprise customers are SOHOs, which represent sole proprietorships, individual business interests and very small corporations. We generally diversify SOHOs into two groups. The first group are those who do not typically maintain financial statements. We generally lend to this group on a secured basis. For these SOHOs we apply a strict credit risk evaluation model, which not only uses quantitative analysis related to a customer s accounts and due amounts but also requires our credit officers to perform a qualitative analysis of each potential SOHO customer. The second group are those who maintain a double-entry book keeping system. We usually lend to this group on an unsecured basis. We evaluate the risk of this segment through the corporate credit risk system, which takes into account both financial and non-financial criteria.

Pricing

We establish the price for our corporate loan products (other than collective housing loans) based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system.

Our Market Opportunity Rate system is a periodic floating rate system which takes into account the current market interest rate and an activity-based cost, and a spread calculated to achieve a target return on asset ratio set for the year. As of December 31, 2006, the Market Opportunity Rate was 4.80% for three months, 4.81% for six months and 4.93% for one year.

While we generally utilize the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, we may adjust the interest rate we charge to compete more effectively with other banks.

The interest rates on our collective housing loans are based on a periodic floating rate, which in turn is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system. After selecting the appropriate periodic floating rate, our loan analysis system raises or lowers the floating rate based on various factors related to the loan and the borrower. In addition, we take into account the market conditions and our expenses and services to be provided with respect to such loan. The repayment schedule differs according to the variable term, repayment method and the particular loan. If a loan is terminated prior to its maturity, the corporate borrower is obligated to pay us an early termination fee in addition to the accrued interest.

Large Corporate Banking

Large corporate customers include all companies that are not small- and medium-sized enterprise customers. Due to our history of development and limitations in our articles of incorporation, large corporate banking was not a core business of the former Kookmin Bank or of H&CB prior to the merger. Our articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of our Won-denominated loans. Our business focus with respect to large corporate banking has shifted from a concentration on risk management to selective expansion, within the constraints of our articles of incorporation. Specifically, we are carrying out various initiatives to improve our customer relationship with large corporate customers and plan to expand our service offerings to this segment.

Lending Activities

Our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2006, working capital loans and facilities loans accounted for 96.9% and 3.1%, respectively, of our total large corporate loans. We also offer collective housing loans, as described above under Small- and Medium-sized Enterprise Banking Lending Activities, to large corporate clients.

As of December 31, 2006, secured loans and guaranteed loans accounted for, in the aggregate, 14.2% of our large corporate loans. Among the secured loans, 36.5% were secured by real estate and 63.5% were secured by deposits or securities. Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

We evaluate creditworthiness and collateral for our large corporate loans in essentially the same way as we do for small- and medium-sized enterprise loans. See Small- and Medium-sized Enterprise Banking Lending Activities above.

As of December 31, 2006, in terms of our outstanding loan balance, 33.5% of our large corporate loans was extended to borrowers in the manufacturing industry, 16.6% was extended to borrowers in the construction industry, and 15.1% was extended to borrowers in the financial and insurance industry.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See Small- and Medium-sized Enterprise Banking Pricing above. As of December 31, 2006, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

Capital Markets Activities and International Banking

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, engage in derivatives and asset securitization transactions and make call loans.

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2004, 2005 and 2006, our investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)26,790 billion, (Won)28,924 billion and (Won)27,922 billion and represented 15.1%, 16.2% and 14.5% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 2004, 2005 and 2006, we held debt securities with a total book value of (Won)25,512 billion, (Won)27,876 billion and (Won)26,033 billion, respectively, of which:

- held-to-maturity debt securities accounted for (Won)6,168 billion, (Won)10,498 billion and (Won)10,963 billion, or 24.2%, 37.7% and 42.1%, respectively;
- available-for-sale debt securities accounted for (Won)15,898 billion, (Won)14,027 billion and (Won)12,641 billion, or 62.3%, 50.3% and 48.6%, respectively; and
- trading debt securities accounted for (Won)3,446 billion, (Won)3,351 billion and (Won)2,429 billion, or 13.5%, 12.0% and 9.3%, respectively.

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Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2004, 2005 and 2006 amounted to:

(Won)4,748 billion, (Won)6,209 billion and (Won)8,316 billion, or 77.0%, 59.1% and 75.9%, respectively, of our held-to-maturity debt securities;

(Won)3,735 billion, (Won)3,394 billion and (Won)3,708 billion, or 23.5%, 24.2% and 29.3%, respectively, of our available-for-sale debt securities; and

(Won)916 billion, (Won)1,756 billion and (Won)478 billion, or 26.6%, 52.4% and 19.7%, respectively, of our trading debt securities.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the Stock Market Division of the Korea Exchange or KOSDAQ Market Division of the Korea Exchange. As of December 31, 2004, 2005 and 2006:

equity securities in our available-for-sale portfolio had a book value of (Won)252 billion, (Won)128 billion and (Won)1,007 billion, or 1.6%, 0.9% and 7.4% of our available-for-sale portfolio, respectively; and

equity securities in our trading portfolio had a book value of (Won)249 billion, (Won)201 billion and (Won)145 billion, or 6.7%, 5.7% and 5.6% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes foreign exchange spot contracts and derivative instruments. See Derivatives Trading. Our investment portfolio also includes venture capital activities, non-marketable or restricted equity securities, investments under the equity method and investments held by our asset management subsidiary. As of December 31, 2004, 2005 and 2006, these investments had an aggregate book value of (Won)777 billion, (Won)719 billion and (Won)737 billion, respectively.

The following tables show, as of the dates indicated, the gross unrealized gains and losses on available-for-sale and held-to-maturity securities within our investment securities portfolio, and the amortized cost and fair value of the portfolio by type of investment security:

	As of December 31, 2004			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 3,689	(Won) 48	(Won) 1	(Won) 3,736
Corporate [(1)]	801	22	5	818
Financial institutions [(2)]	11,103	38	6	11,135
Foreign governments	37	5		42
Asset-backed securities	166	1		167
Subtotal	15,796	114	12	15,898
Marketable equity securities	225	27		252
Total available-for-sale securities	(Won) 16,021	(Won) 141	(Won) 12	(Won) 16,150

Held-to-maturity securities:			
Korean treasury securities and government agencies	(Won) 4,748	(Won) 206	(Won) 4,954
Corporate [(3)]	65	1	66
Financial institutions [(4)]	1,242	5	1,247
Foreign governments			
Asset-backed securities	113	2	115
Total held-to-maturity securities	(Won) 6,168	(Won) 214	(Won) 6,382

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	As of December 31, 2005			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 3,426	(Won) 3	(Won) 35	(Won) 3,394
Corporate [(1)]	569	9	8	570
Financial institutions [(2)]	9,969	3	41	9,931
Foreign governments	17	2		19
Asset-backed securities	114		2	112
Other debt securities	1			1
Subtotal	14,096	17	86	14,027
Marketable equity securities	93	39	4	128
Total available-for-sale securities	(Won) 14,189	(Won) 56	(Won) 90	(Won) 14,155
Held-to-maturity securities:				
Korean treasury securities and government agencies	(Won) 6,209	(Won) 37	(Won) 168	(Won) 6,078
Corporate [(3)]	125		5	120
Financial institutions [(4)]	3,870		42	3,828
Foreign governments				
Asset-backed securities	294		4	290
Total held-to-maturity securities	(Won) 10,498	(Won) 37	(Won) 219	(Won) 10,316

	As of December 31, 2006			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean treasury securities and government agencies	(Won) 3,716	(Won) 1	(Won) 9	(Won) 3,708
Corporate [(1)]	573	20	4	589
Financial institutions [(2)]	8,198	1	15	8,184
Foreign governments	9			9
Asset-backed securities	152		1	151
Other debt securities				
Subtotal	12,648	22	29	12,641
Marketable equity securities	378	675	46	1,007
Total available-for-sale securities	(Won) 13,026	(Won) 697	(Won) 75	(Won) 13,648
Held-to-maturity securities:				
Korean treasury securities and government agencies	(Won) 8,316	(Won) 47	(Won) 92	(Won) 8,271
Corporate [(3)]	215		3	212
Financial institutions [(4)]	2,227		13	2,214
Foreign governments				
Asset-backed securities	205		2	203

Total held-to-maturity securities	(Won) 10,963	(Won) 47	(Won) 110	(Won) 10,900

(1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)16 billion as of December 31, 2004, (Won)14 billion as of December 31, 2005 and (Won)48 billion as of December 31, 2006.

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(2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)10,206 billion as of December 31, 2004, (Won)8,100 billion as of December 31, 2005 and (Won)6,667 billion as of December 31, 2006. These financial institutions are controlled by the Korean government.

(3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)30 billion as of December 31, 2004, (Won)90 billion as of December 31, 2005 and (Won)90 billion as of December 31, 2006.

(4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,144 billion as of December 31, 2004, (Won)3,476 billion as of December 31, 2005 and (Won)2,042 billion as of December 31, 2006. These financial institutions are controlled by the Korean government.

Derivatives Trading

Until the full-scale launch of our derivative operations in mid-1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased from (Won)103,608 billion in 2004 to (Won)112,785 billion in 2005 and to (Won)149,438 billion in 2006. Our net trading revenue from derivatives and foreign exchange contracts for the year ended December 31, 2004, 2005 and 2006 was (Won)298 billion, (Won)268 billion and (Won)248 billion, respectively.

We provide and trade a range of derivatives products, including:

- Won interest rate swaps, relating to Won interest rate risks;
- cross-currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;
- foreign exchange forwards, swaps and options, relating to foreign exchange risks; and
- equity options on the KOSPI index.

To provide more sophisticated and complete treasury risk management services to our clients, we entered into a business alliance with Australia s Macquarie Bank in December 1998. Macquarie Bank, established in 1969, is a leading provider of financial services offering a full range of investment banking, commercial banking and retail financial services globally. Through this alliance, we were able to combine Macquarie Bank s derivatives expertise, risk management systems and methodologies with our established local infrastructure and strong market presence.

Our derivative operations focus on addressing the needs of our corporate clients to hedge their risk exposure and to hedge our risk exposure that results from such client contracts. We also engage in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arise from our own assets and liabilities. A substantial portion of these hedge-purposed derivative contracts, however, do not qualify for hedge accounting under U.S. GAAP and are consequently treated as trading derivatives. In addition, we engage in proprietary trading of derivatives within our regulated open position limits.

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The following shows the estimated fair value of our derivatives and foreign exchange spot contracts as of December 31, 2004, 2005 and 2006:

	As of December 31,					
	2004		2005		2006	
	Estimated fair value assets	Estimated fair value liabilities	Estimated fair value assets	Estimated fair value liabilities	Estimated fair value assets	Estimated fair value liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 8	(Won) 5				
Foreign exchange derivatives	1,998	1,846	(Won) 906	(Won) 820	(Won) 968	(Won) 958
Interest rate derivatives [1]	323	372	234	245	177	219
Equity derivatives	72	74	62	62	26	46
Others						
Total	(Won) 2,401	(Won) 2,297	(Won) 1,202	(Won) 1,127	(Won) 1,171	(Won) 1,223

(1) Includes those for trading purposes and hedging purposes.

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes that qualified for hedge accounting under U.S. GAAP, as of December 31, 2004, 2005 and 2006:

	As of December 31,					
	2004		2005		2006	
	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses
	(in billions of Won)					
Interest rate derivatives [1]	(Won) 10	(Won) 10	(Won) 52	(Won) 52	(Won) 2	(Won) 2
Total	(Won) 10	(Won) 10	(Won) 52	(Won) 52	(Won) 2	(Won) 2

(1) Includes the unrealized gains and losses of the underlying hedged items.

Asset Securitization Transactions

We are active in the Korean asset-backed securities market. Based on our diverse experience with respect to product development and management capabilities relating to asset securitization, we offer customers a wide range of financial products to reinforce our position as a leading bank with respect to the asset securitization market. We were involved in asset securitization transactions with an initial aggregate issue amount of (Won)9,214 billion in 2004, (Won)6,865 billion in 2005 and (Won)6,738 billion in 2006, of which (Won)5,517 billion, (Won)4,671 billion and (Won)3,222 billion, respectively, were public offerings of asset-backed securities. Most of these securities were sold to institutional investors through Korean securities houses.

Call Loans

We make call loans and borrow call money in the short-term money market. Through December 31, 2006, call loans were defined as short-term lending among banks and financial institutions either in Won with maturities of 90 days or less or in foreign currencies with maturities of 90 days or less. Typically, call loans have maturities of one day. As of December 31, 2006, we had made call loans of (Won)1,237 billion and borrowed call money of (Won)168 billion, compared to (Won)1,713 billion and (Won)1,254 billion, respectively, as of December 31, 2005. Starting in 2006, we also include as call loans foreign currency lending among banks and financial institutions with maturities of 90 days or less.

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Investment Banking

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. The main focus of our investment banking operations is project finance and financial advisory services. Our principal investment banking services include:

- project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;
- financing and financial advisory services for real estate development projects; and
- structured finance and venture financing.

In 2006, under Korean GAAP, we generated investment banking revenue of (Won)143 billion, consisting of (Won)42 billion of interest income and (Won)101 billion of fee income.

International Banking

We engage in various international banking activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations. We also raise foreign currency funds through our international banking operations. Since the Korean financial crisis, which began in late 1997, we have focused on minimizing the risk of our existing foreign currency assets and maximizing the recovery ratio of non-performing assets while selectively providing financing to and making investments in overseas subsidiaries of Korean companies.

The table below sets forth certain information regarding our foreign currency assets and borrowings:

	As of December 31,		
	2004	2005	2006
	(in millions of US$)		
Total foreign currency assets	US$ 5,465	US$ 7,435	US$ 10,211
Foreign currency borrowings:			
Long-term borrowings	1,485	1,714	3,771
Short-term borrowings	730	1,830	2,088
Total borrowings	US$ 2,215	US$ 3,544	US$ 5,859

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2006:

Business Unit[1]	Location
Subsidiaries	
Kookmin Bank Hong Kong Ltd.	Hong Kong
Kookmin Bank International Ltd.	United Kingdom
Branches	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States

(1) Does not include subsidiaries and branches in liquidation or dissolution.

Our overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of our headquarters. In June 2007, we opened a representative office in Almaty, Kazakhstan.

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In December 2003, we invested approximately 121 million Singapore dollars for an approximately 25% interest in Sorak Financial Holdings, which was originally owned by Temasek Holdings, the Singapore government s investment vehicle. We made this investment as part of a consortium with Temasek and other parties that was formed to bid for a majority interest in Bank Internasional Indonesia, an Indonesian commercial bank, being auctioned by the Indonesian Bank Restructuring Agency. With the capital contributions made by the consortium members, Sorak Financial Holdings acquired an approximately 57% interest in Bank Internasional Indonesia. As a member of the consortium, we participate in the management of Bank Internasional Indonesia.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

We act as a trustee for 40 asset management companies, which invest in investment assets using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian, settlement and clearing agent and fund administrator for 68 financial institutions with respect to various investments. We receive a fee for acting in these capacities and generally perform the following functions:

- holding assets for the benefit of the investment trusts or institutional investors;
- receiving and making payments in respect of such investments;
- executing trades in respect of such investments on behalf of the investment trust or institutional investors, based on instructions from the relevant asset management company or such investors;
- in certain cases, authenticating beneficiary certificates issued by the investment trust and handling settlements in respect of such beneficiary certificates;
- clearing and settlement in the domestic and foreign securities markets;
- providing foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

For the year ended December 31, 2006, our fee income from our trustee and custodian services was (Won)21 billion and revenues collected as a result of administration of the underlying investments were (Won)7 billion.

Other Businesses

Trust Account Management Services

Money Trust Management Services

We provide trust account management services for unspecified money trusts, which are trusts the assets of which we generally have broad discretion in investing. We receive fees for our trust account management services consisting of basic fees that are based upon a percentage of the net asset value of the assets under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2006, our basic fees ranged from 0.1% to 2.0% of total assets under management depending on the type of trust account. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 24 types of money trusts. The money trusts we manage are generally trusts with a fixed maturity. Approximately half of our money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of our trust accounts are segregated from our banking account assets and are not available to satisfy the claims of any of our potential creditors. We are, however, permitted to deposit surplus funds generated by trust assets into our banking accounts.

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As of December 31, 2006, the total balance of our money trusts (under Korean GAAP) was (Won)9,627 billion. As for unspecified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we historically did not consolidate money trust accounts in our financial statements or recognized the acquisition of such accounts in accordance with the purchase method of accounting due to the fact that these are not our assets but customer assets. As more fully discussed in Note 9 to our financial statements, however, beginning in 2004, we began consolidating money trusts for which we guaranteed both the principal and a fixed rate of interest (as described below) under U.S. GAAP. Under Korean GAAP, we consolidate money trusts for which we guaranteed the principal amount invested as well as those for which we guaranteed both the principal and a fixed rate of interest.

	As of December 31,		
	2004	2005	2006
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 0.3	(Won) 0.3	(Won) 0.3
Principal guaranteed trusts	3,162	3,188	3,301
Performance trusts [(1)]	3,867	4,218	6,326
Total	(Won) 7,029	(Won) 7,406	(Won) 9,627

(1) Non-guaranteed trusts.

The balance of our money trusts increased 37.0% between December 31, 2004 and December 31, 2006.

As of December 31, 2006, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2006, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of (Won)7,939 billion, of which (Won)7,268 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2006, under Korean GAAP, our trust accounts had made loans in the principal amount of (Won)404 billion (excluding loans from the trust accounts to our banking accounts of (Won)950 billion), which accounted for 4.0% of our money trust assets. Loans by our money trusts are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2006, substantially all of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by asset management companies. On a Korean GAAP basis, as of December 31, 2006, equity securities in our money trust accounts amounted to (Won)671 billion, which accounted for 6.7% of our total money trust assets. Of this amount, (Won)598 billion was from specified money trusts and (Won)73 billion was from unspecified money trusts.

We currently continue to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On a Korean GAAP basis, as of December 31, 2006, the balance of the money trusts for which we guaranteed the principal was (Won)3,301 billion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. In 2004, 2005 and 2006 we made no significant payments from our banking accounts to cover shortfalls in our guaranteed trusts. On a Korean GAAP basis, we derived trust fees with regard to trust account management services (including those fees related to property trust management services) of (Won)102 billion in 2004, (Won)121 billion in 2005 and (Won)78 billion in 2006.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trusts, took effect in January 2004. Under that law, a bank is not permitted to offer unspecified money trust products, which was a core product in our trust business, after July 2004 (except under certain limited circumstances) and is required to qualify as an asset management company in order to manage any newly offered unspecified money trust products. See Principal Regulations Applicable to Banks Trust Business. Because we did not qualify as an asset management company under the Indirect Investment Asset Management Business Act, since July 2004, we have continued to directly manage only trust products sold before July 2004. Trust products sold after July 2004 are managed by KB Asset Management. We believe that we can leverage our extensive sales network in connection with KB Asset Management s unspecified money trust operations.

Property Trust Management Services

We also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly securities, but can also include other liquid receivables and real estate. Under these arrangements, we render custodial services for the property in question and collect fee income in return.

In 2006, our property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. As of December 31, 2006, the aggregate balance of our property trusts decreased to (Won)6,631 billion, compared to (Won)9,854 billion as of December 31, 2005.

The property trusts are not consolidated within our U.S. GAAP financial statements.

Investment Trust Management

We offer investment trust products to customers and manage the funds invested by them in investment trusts, through our subsidiary, KB Asset Management, which is 80% owned by us and 20% owned by ING Insurance International B.V. As of December 31, 2006, KB Asset Management had (Won)15,637 billion of assets under management.

Management of the National Housing Fund

We manage the operations of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Fund include providing and managing National Housing Fund loans, issuing National Housing Fund bonds and collecting subscription savings deposits.

In return for managing the operations of the National Housing Fund we receive a monthly fee, calculated based on activity levels for the relevant month. In 2006, we received total fees of (Won)172 billion for managing the National Housing Fund, compared to (Won)180 billion in 2005.

The financial accounting for the National Housing Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing Fund, in general, do not impact our financial condition. Regulations and guidelines for managing the National Housing Fund are issued by the Minister of Construction and Transportation pursuant to the Housing Act.

In November 2002, the Ministry of Construction and Transportation designated two other financial institutions to, together with us, manage the Fund with a view to diversifying its management. In February 2003, the Ministry of Construction and Transportation changed the basis of calculating fees related to the National

Housing Fund and, in March 2006, appointed an independent consultant to advise on further changes to the basis of calculating such fees and the designation of institutions to manage the National Housing Fund. In November 2003, the Ministry of Construction and Transportation strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they had clear responsibility for non-performing National Housing Fund loans or where losses resulted to the National Housing Fund due to negligent management.

Bancassurance

The Korean government s liberalization of the bancassurance market in Korea has allowed us to offer insurance products of other institutions since September 2003. We currently market a wide range of bancassurance products and hope to develop additional fee-based revenues by expanding our offering of these products in the future.

Currently, our bancassurance business has alliances with 15 life insurance companies and nine non-life insurance companies and offers 46 different products through our branch network. These products are composed of 26 types of life insurance policies such as annuities, savings insurance and variable life insurance, and 20 types of non-life insurance products. In 2006, our commission income from our bancassurance business amounted to (Won)154.7 billion.

Lottery Business

We have been designated by the government as a lottery operator and have been permitted to conduct ticket sales, marketing and sales network management in connection with two lotteries, the Housing Lottery and the Lotto 6/45, since 1969 and 2002, respectively. These lotteries are owned by the Korean government. In 2006, we received (Won)13 billion in fees in connection with managing lottery prize payouts and marketing activities.

Other Distribution Channels

The following table sets forth information under Korean GAAP, for the periods indicated, on the number of users and transactions and the fee revenue of the other services provided to our retail and corporate customers, which are discussed below:

	For the year ended December 31,		
	2004	2005	2006
Phone banking:			
Number of users [1]	1,573,505	1,678,791	1,774,717
Number of transaction (thousands)	285,892	308,714	309,174
Fee revenue (in millions of Won)	(Won) 18,021	(Won) 20,770	(Won) 19,672
Internet banking:			
Number of users [1]	3,223,671	4,337,349	6,050,196
Number of transactions (thousands)	566,192	903,769	1,099,105
Fee revenue (in millions of Won)	(Won) 19,296	(Won) 25,722	(Won) 29,850

(1) Users are defined as persons who had recorded a transaction within the past six months (excluding overlapping and inactive customers).

In March 2007, we reduced or waived many of the fees we charge on our banking services, in response to customer demand. Specifically, we reduced or waived our fees on fund transfers through our Internet, mobile and telephone banking services, as well as on transfers and after-hour withdrawals through ATMs. We also reduced our wire transfer fees and eliminated the fees we charge on issuance of bankers checks and certain tax-related statements. These measures may result in a significant reduction in our banking-related fee income.

Phone Banking

We launched our telephone banking services in 1991, allowing customers to conduct a number of types of transactions by telephone. We offer a variety of services, including inter-account fund transfers, balance and transaction inquiries, credit card transaction inquiries and customer service inquiries. We also have call centers, which we primarily use to:

- advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;
- allow our customers to conduct transactions with respect to their accounts, such as transfers or payments, opening or closing accounts, processing loans through automated systems, conducting credit card transactions and offering lottery-related services;
- conduct telemarketing to our customers or potential customers to advertise products or services through phone, fax or text messaging; and
- provide automated banking services, mobile services or other services relating to affinity programs.

Internet Banking

We began to offer a variety of services over the Internet beginning in 1999. Our goal is to consolidate our position as a market leader in on-line banking. Our Internet banking services currently include:

- Basic Banking Services these include all of the banking services offered through our telephone banking services, including funds transfers, balance and transaction inquiries, credit card transaction inquiries, pre-set automatic transfers and product inquiries;
- Processing of Loan Applications we quickly process and approve on-line loan applications; and
- Electronic Certification we offer an electronic certification service, which permits Internet users to authenticate transactions on a confidential basis through digital signatures.

Mobile Banking

Mobile banking services allow customers to use mobile phones or PDAs (Personal Digital Assistants) to make inter-account transfers and balance and other transaction inquiries. There are currently three mobile phone service providers in Korea, SK Telecom, KT Freetel, and LG Telecom, and we provide our services in association with all three. Our mobile banking services currently include:

- Basic Banking Services these include fund transfers and balance and transaction inquiries;
- Mobile Stock Trading mobile banking customers can use their mobile phone to trade stocks; and
- Mobile Lottery and Application for Housing we offer a mobile lottery purchasing service (Instant Lotto, Housing Lotto, Keno) and mobile submissions of applications for housing.

Other Channels

We provide cash management services, which include automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2006, we provided cash management services to over 1,300 large corporations and small- and medium-sized enterprises.

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Competition

We compete principally with other nationwide commercial banks in Korea, but we also face competition from a number of additional sources including regional banks, development banks, specialized banks and branches of foreign banks operating in Korea and installment finance corporations for mortgage loan products. We also compete for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in our traditional core businesses, retail banking, small- and medium-sized enterprise banking and credit card lending, as a result of other commercial banks reducing their exposure to large corporations in light of recent financial difficulties that they experienced, contributing to some extent to the asset quality deterioration in retail and small- and medium-sized loans. As a result, our margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean banking industry, accelerated by Korea s economic difficulties since late 1997 and the Korean government s commitments to the International Monetary Fund, have increased competition among banks and financial institutions in Korea. Among these reforms was the lifting of the regulatory restrictions on mortgage lending and housing deposit taking activities that had prevented the other commercial banks in Korea from competing directly with H&CB in providing mortgage finance products. Increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last five years, including the establishment of financial holding companies, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to seven banks and three financial holding companies as of December 31, 2006. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004 and Standard Chartered Bank s acquisition of Korea First Bank in April 2005, as well as Chohung Bank s merger with Shinhan Bank in April 2006. Merger and acquisition activity in the Korean commercial banking sector may continue, and we intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers. In addition, some of the banks resulting from these mergers may, by virtue of the increased size, provide significantly greater competition than what exists at present.

For additional information, you should read the section entitled Item 3D. Risk Factors Risks relating to competition.

Information Technology

Our mainframe-based banking and credit card IT systems are designed to ensure continuity of services even where there is a failure of the host data center due to a natural disaster or other accidents by utilizing backup systems in disaster recovery data centers. In addition, through the implementation of Parallel Sysplex, a multi-CPU system , our bank and credit card systems are designed and operated to be able to process transactions without material interruption in the event of CPU failure.

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The integrity of our IT systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), is crucial to our continuing operations. We currently test our disaster recovery systems on a quarterly basis. For additional information, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Operational Risk Management.

We believe that continuous improvement of our IT system is crucial in supporting our operations management and providing high-quality customer service. Accordingly, we plan to upgrade and improve our system by taking the following initiatives:

- developing our next generation banking system, beginning in 2007 with a target completion in 2010, which includes seven projects including the reconstruction of our core banking system, enterprise data warehouse system and Internet banking system; and

- strengthening our system security by expanding our IT security organization with additional security experts, centralizing the control and management of system security and improving our firewall and virus prevention system.

Timely offering of IT services to support business opportunities is important in retaining our competitiveness. We developed and successfully implemented the following IT services in mid-2006:

- an expanded and upgraded bank-wide, integrated customer relationship management system to help identify potential and cross-marketing opportunities by providing comprehensive customer information including transaction history; and

- various other IT systems and services, including further development of our retirement pension system, a cyber branch to provide customized banking services for corporate customers and new infrastructure to support large-scale real estate subscription businesses.

We have also begun the development of a Capital Markets Business System that will support the sales of complex financial products.

In 2006, we spent approximately (Won)368 billion for our IT systems, including expenses related to upgrades and stability enhancement for our IT systems and development of next generation banking systems. As of December 31, 2006, we employed a total of approximately 690 full-time employees in our IT operations.

Assets and Liabilities

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities. Data in these tables do not include information with respect to operations that we have classified as discontinued operations as of and for the year ended December 31, 2002 under U.S. GAAP.

Loan Portfolio

As of December 31, 2006, our total loan portfolio increased to (Won)151,403 billion compared to (Won)138,012 billion at December 31, 2005. As of December 31, 2006, 94.8% of our total loans were Won-denominated loans.

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Loan Types

The following table presents loans by type for the periods indicated. Except where we specify otherwise, all loan amounts stated below are before deduction of allowance for loan losses. Total loans reflect our loan portfolio, including past due amounts.

	2002	2003	As of December 31, 2004 (in billions of Won)	2005	2006
Domestic:					
Corporate					
Commercial and industrial [1]	(Won) 40,072	(Won) 41,096	(Won) 38,427	(Won) 39,636	(Won) 48,183
Construction	6,385	6,061	4,459	5,025	6,504
Lease financing					
Other corporate	1,045	742	771	1,496	1,409
Retail					
Mortgage and home equity	46,195	52,477	57,965	59,143	63,982
Other consumer	28,066	28,727	25,963	23,114	21,589
Credit cards	22,643	15,322	9,421	8,369	8,955
Total domestic	144,406	144,425	137,006	136,783	150,622
Foreign:					
Corporate					
Commercial and industrial	1,426	1,433	1,118	1,229	781
Total foreign	1,426	1,433	1,118	1,229	781
Total gross loans	(Won) 145,832	(Won) 145,858	(Won) 138,124	(Won) 138,012	(Won) 151,403

(1) Commercial and industrial loans include (Won)165 billion, (Won)3 billion, (Won)335 billion, (Won)222 billion and (Won)400 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

Loan Concentrations

We limit our exposure to any single borrower to 10% of our total Tier I and Tier II capital, depending on their rating under our credit scoring system. We also limit our exposure to any single *chaebol* to 20.0% of our total Tier I and Tier II capital (less any capital deductions).

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20 Largest Exposures by Borrower

As of December 31, 2006, our 20 largest exposures totaled (Won)21,370 billion and accounted for 11.6% of our total exposures. The following table sets forth, as of December 31, 2006, our total exposures to these top 20 borrowers:

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
				(in billions of Won)			
The Bank of Korea	(Won) 0	(Won) 0	(Won) 0	(Won) 8,710	(Won) 0	(Won) 8,710	(Won) 0
Hyundai Heavy Industries	0	0	2	5	1,472	1,479	0
Industrial Bank of Korea	0	2	2	1,167	0	1,171	0
Korea Deposit Insurance Corporation	0	0	0	1,085	0	1,085	0
LG Card	59	0	821	0	0	880	59
Woori Bank	70	353	0	456	0	879	0
Korea National Housing Corporation	644	0	0	220	0	864	0
Shinsegae	300	393	2	10	0	705	0
The Korea Development Bank	13	0	0	660	0	673	0
LG Electronics	2	539	1	56	0	598	0
Samsung Electronics	6	240	23	0	285	554	0
Kia Motors	100	360	1	74	9	544	0
Korea Expressway Corporation	100	97	6	340	0	543	0
Samsung Heavy Industries	0	0	1	0	496	497	0
SH Corporation	450	0	0	0	0	450	0
Shinhan Bank	0	0	0	404	0	404	0
LG. Philips LCD	0	359	1	27	0	387	0
Shinhan Financial Group	236	0	4	100	0	340	0
Daewoo Construction Corporation	50	0	255	0	2	307	0
Gyeonggi Innovation Corporation	300	0	0	0	0	300	0
Total	(Won) 2,330	(Won) 2,343	(Won) 1,119	(Won) 13,314	(Won) 2,264	(Won) 21,370	(Won) 59

As of December 31, 2006, eight of these top 20 borrowers were companies belonging to the 36 largest *chaebols* in Korea.

Exposure to Chaebols

As of December 31, 2006, 6.0% of our total exposure was to the 36 largest *chaebols* in Korea. The following table shows, as of December 31, 2006, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
				(in billions of Won)			
Samsung (1)	(Won) 531	(Won) 405	(Won) 40	(Won) 0	(Won) 950	(Won) 1,926	(Won) 0
Hyundai Heavy Industries (2)	5	0	3	5	1,536	1,549	0
Hyundai Motors (3)	454	577	7	167	260	1,465	0
LG (4)	106	953	5	96	12	1,172	0
Shinsegae (5)	314	394	2	10	7	727	0

Hanjin Shipping (6)	326	235	4	9	85	659	0
SK Corporation (7)	155	132	10	20	24	341	0
KT Corporation (8)	163	6	3	40	128	340	0
Hanwha (9)	290	31	2	0	6	329	0
Kumho Asiana (10)	303	0	2	0	11	316	0
Total	(Won) 2,647	(Won) 2,733	(Won) 78	(Won) 347	(Won) 3,019	(Won) 8,824	(Won) 0

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(1) Includes principally Samsung Electronics Co., Ltd., Samsung Corporation and Samsung Heavy Industries Co., Ltd.
(2) Includes principally Hyundai Heavy Industries Co., Ltd. and Hyundai Mipo Dockyard Co., Ltd.
(3) Includes principally Hyundai Motor Company Co., Ltd., Kia Motors Corporation and INI Steel Company.
(4) Includes principally LG Electronics Inc., LG. Philips LCD Co., Ltd. and LG Petrochemical Co., Ltd.
(5) Includes principally Shinsegae Co., Ltd., Shinsegae International Co., Ltd., and Chosun Hotel Bakery Co., Ltd.
(6) Includes principally Hanjin Shipping Co., Ltd., Korean Air Lines Co., Ltd. and Hanjin Corporation.
(7) Includes principally SK Corporation, SK Telecom Co., Ltd. and SK Shipping Co., Ltd.
(8) Includes principally KT Corporation, KT Linkus and KT Freetel Co., Ltd.
(9) Includes principally Hanwha Stores Co., Ltd., Hanwha Corporation and Hanwha Chemical Corporation.
(10) Includes principally Korea Integrated Freight Terminal Co., Ltd., Kumho Industrial Co., Ltd. and Asiana Airlines.

Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2006:

Industry	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Manufacturing	(Won) 16,987	29.9%
Retail and wholesale	8,692	15.3
Hotel, leisure or transportation	5,246	9.2
Real estate	10,352	18.2
Construction	6,519	11.5
Finance and insurance	2,465	4.3
Other	6,616	11.6
Total	(Won) 56,877	100.0%

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2006:

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Commercial and industrial loans		
Up to (Won)10 million	(Won) 206	0.1%
Over (Won)10 million to (Won)50 million	3,097	2.0
Over (Won)50 million to (Won)100 million	3,316	2.2
Over (Won)100 million to (Won)500 million	14,128	9.3
Over (Won)500 million to (Won)1 billion	5,642	3.7
Over (Won)1 billion to (Won)5 billion	7,091	4.7
Over (Won)5 billion to (Won)10 billion	1,892	1.2
Over (Won)10 billion to (Won)50 billion	6,803	4.5
Over (Won)50 billion to (Won)100 billion	3,189	2.1
Over (Won)100 billion	2,819	1.8
Sub-total	48,183	31.6

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	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Construction loans		
Up to (Won)10 million	(Won) 16	0.0%
Over (Won)10 million to (Won)50 million	208	0.1
Over (Won)50 million to (Won)100 million	264	0.2
Over (Won)100 million to (Won)500 million	1,046	0.7
Over (Won)500 million to (Won)1 billion	406	0.3
Over (Won)1 billion to (Won)5 billion	728	0.5
Over (Won)5 billion to (Won)10 billion	237	0.1
Over (Won)10 billion to (Won)50 billion	1,863	1.2
Over (Won)50 billion to (Won)100 billion	409	0.3
Over (Won)100 billion	1,327	0.9
Sub-total	6,504	4.3
Other corporate loans		
Up to (Won)10 million	9	0.0
Over (Won)10 million to (Won)50 million	104	0.1
Over (Won)50 million to (Won)100 million	113	0.1
Over (Won)100 million to (Won)500 million	452	0.3
Over (Won)500 million to (Won)1 billion	139	0.1
Over (Won)1 billion to (Won)5 billion	308	0.2
Over (Won)5 billion to (Won)10 billion	184	0.1
Over (Won)10 billion to (Won)50 billion	100	0.1
Sub-total	1,409	1.0
Credit cards		
Up to (Won)10 million	7,505	4.9
Over (Won)10 million to (Won)50 million	567	0.4
Over (Won)50 million to (Won)100 million	19	0.0
Over (Won)100 million to (Won)500 million	85	0.1
Over (Won)500 million to (Won)1 billion	79	0.1
Over (Won)1 billion to (Won)5 billion	189	0.1
Over (Won)5 billion to (Won)10 billion	57	0.0
Over (Won)10 billion to (Won)50 billion	221	0.1
Over (Won)50 billion to (Won)100 billion	233	0.2
Over (Won)100 billion		
Sub-total	8,955	5.9
Mortgage and home equity loans		
Up to (Won)10 million	1,833	1.2
Over (Won)10 million to (Won)50 million	18,055	11.9
Over (Won)50 million to (Won)100 million	19,564	12.9
Over (Won)100 million to (Won)500 million	23,598	15.6
Over (Won)500 million to (Won)1 billion	859	0.5
Over (Won)1 billion to (Won)5 billion	67	0.0
Over (Won)5 billion to (Won)10 billion	6	0.0
Over (Won)10 billion to (Won)50 billion		
Sub-total	63,982	42.1

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	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Other consumer loans		
Up to (Won)10 million	(Won) 7,173	4.7%
Over (Won)10 million to (Won)50 million	8,118	5.4
Over (Won)50 million to (Won)100 million	2,350	1.6
Over (Won)100 million to (Won)500 million	3,419	2.3
Over (Won)500 million to (Won)1 billion	381	0.3
Over (Won)1 billion to (Won)5 billion	141	0.1
Over (Won)5 billion to (Won)10 billion	7	0.0
Sub-total	21,589	14.4
Foreign commercial and industrial loans		
Up to (Won)10 million		
Over (Won)10 million to (Won)50 million	5	0.0
Over (Won)50 million to (Won)100 million	9	0.0
Over (Won)100 million to (Won)500 million	81	0.1
Over (Won)500 million to (Won)1 billion	81	0.1
Over (Won)1 billion to (Won)5 billion	241	0.2
Over (Won)5 billion to (Won)10 billion	170	0.1
Over (Won)10 billion to (Won)50 billion	99	0.1
Over (Won)50 billion to (Won)100 billion	95	0.1
Over (Won)100 billion		
Sub-total	781	0.7
Total	(Won) 151,403	100.0%

Maturity Analysis

We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three years and consumer loans may be extended for another term of up to 12 months for an aggregate term of ten years.

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The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2006. The amounts disclosed are before deduction of allowance for loan losses:

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
		(in billions of Won)		
Domestic:				
Corporate				
Commercial and industrial	(Won) 33,515	(Won) 12,074	(Won) 2,594	(Won) 48,183
Construction	3,151	3,218	135	6,504
Other corporate	1,408	1		1,409
Total corporate	38,074	15,293	2,729	56,096
Retail				
Mortgage and home equity	14,091	16,192	33,699	63,982
Other consumer	16,005	4,894	690	21,589
Total retail	30,096	21,086	34,389	85,571
Credit cards	7,992	963		8,955
Total domestic	76,162	37,342	37,118	150,622
Foreign:				
Corporate				
Commercial and industrial	279	388	114	781
Total foreign	279	388	114	781
Total gross loans	(Won) 76,441	(Won) 37,730	(Won) 37,232	(Won) 151,403

Interest Rate Sensitivity

The following table shows, as of December 31, 2006, the total amount of loans due after one year, which have fixed interest rates and variable or adjustable interest rates:

	As of December 31, 2006 (in billions of Won)
Fixed rate [(1)]	(Won) 3,107
Variable or adjustable rates [(2)]	71,855
Total gross loans	(Won) 74,962

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Non-Trading Activities.

Credit Exposures to Companies in Workout or Court-Supervised Restructuring

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower s credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and expired on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applies to more than 420 financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower must participate in a creditors committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes debt restructuring) finalizes the borrower s restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan is also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting creditor financial institution fail to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts will be set up to resolve the matter. These procedures may require us to participate in a plan that we do not agree with or may require us to sell our claims at prices that we do not believe are adequate.

As the Corporate Restructuring Promotion Act expired on December 31, 2005 and no other law replacing this Act or with similar effect was enacted, the Korean government presented an amendment bill to extend the effective term of the Corporate Restructuring Promotion Act until December 31, 2010 to the National Assembly of Korea. The amendment bill not only is designed to extend the validity of the Corporate Restructuring Promotion Act but also contains other amendments which provide, among others, (i) that the Financial Supervisory Commission may request that creditor financial institutions defer from exercising their creditor rights and (ii) relaxations of some of the restrictions previously imposed on the creditor financial institutions disposition of their shares acquired by debt-to-equity swaps. The amendment bill is still pending at the National Assembly of Korea.

On December 22, 2006, the Finance Industry Development Council, which consists of representatives from various financial institutions in Korea, announced that it would prepare and execute a work-out agreement for corporate restructuring to replace certain provisions of the expired Corporate Restructuring Promotion Act. On March 30, 2007, with the approval of more than two-thirds of all financial institutions in Korea, the work-out agreement became effective and binding among those institutions that approved the agreement, which comprise 197 out of the 262 financial institutions in Korea and include all banking institutions in Korea. The work-out agreement applies to companies that have more than (Won)50 billion in total outstanding debt and provides, among others, (i) an automatic stay on the exercise of creditors rights upon notice of the convening of a creditors committee consisting of creditor financial institutions and (ii) cash buy-out options for dissenting creditor financial institutions.

Currently, all of our workout loans are managed by our corporate restructuring department. Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout or court-supervised restructuring (including composition or corporate reorganization), we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

The Law Concerning Credit Restoration and Bankruptcy was enacted on March 31, 2005 and became effective on April 1, 2006. After the Law Concerning Credit Restoration and Bankruptcy became effective, each of the Company Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act was abolished. The Law Concerning Credit Restoration and Bankruptcy contains notable changes to previously existing corporate reorganization and composition procedures, including nullification of the composition procedures currently in place and the modification of reorganization procedures, whereby existing management would continue to oversee a company s reorganization process (except that the court would be empowered to appoint a third-party receiver under certain circumstances). Notwithstanding this legislative

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change, any composition or company reorganization proceedings that were pending at the time the new law became effective will continue to be governed under the Composition Act and the Company Reorganization Act, respectively.

A portion of our loans to and debt securities of corporate customers are currently in workout or court-supervised restructuring. As of December 31, 2006, (Won)685 billion or 0.4% of our total loans and debt securities were in workout or court-supervised restructuring. This included (Won)203 billion of loans to and debt securities of large corporate borrowers and (Won)482 billion of loans to and debt securities of small- and medium-sized enterprises.

The following table shows, as of December 31, 2006, our ten largest exposures that were in workout or court-supervised restructuring (including composition or corporate reorganization):

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
	(in billions of Won)						
LG Card	(Won) 59	(Won) 0	(Won) 821	(Won) 0	(Won) 0	(Won) 880	(Won) 59
Pantech & Curitel Communications, Inc.	20	4	0	0	0	24	24
Daewoo Electronics	12	6	2	0	2	22	18
Saehan Industries	0	8	6	7	1	22	8
Pantech Co., Ltd.	8	4	0	0	6	18	12
Dongkuk Corporation	14	3	0	0	0	17	17
Daekyung Machinery & Engineering	3	0	0	0	9	12	3
Daehan Chungsuk Construction Co., Ltd.	9	0	0	0	0	9	9
Kwangneung Country Club Co., Ltd.	8	0	0	0	0	8	8
Korea Express	8	0	0	0	0	8	8
Total	(Won) 141	(Won) 25	(Won) 829	(Won) 7	(Won) 18	(Won) 1,020	(Won) 166

Provisioning Policy

We base our provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Supervisory Commission:

Loan classification	Loan characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of non-repayment.
Substandard	Loans to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

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We consider the following corporate loans to be impaired loans:

- loans classified as substandard or below according to the Financial Supervisory Commission s asset classification guidelines;
- loans that are over 30 days past due;
- loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and
- loans, which are troubled debt restructurings as defined under U.S. GAAP.

We establish loan loss allowances for corporate loans based on whether a particular loan is identified as impaired or not. Loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) we expect to receive on such loans. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral-dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that are considered impaired, the fair value is determined by reference to observable market prices, when available. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information.

The following table sets out, at the dates indicated, the percentage of our impaired corporate loans covered by loan loss allowances, based on their loan classification:

	As of December 31,				
	2002	2003	2004	2005	2006
			(percentages)		
Normal	3.2%	3.7%	3.8%	6.6%	4.9%
Precautionary	12.7	19.5	9.7	8.3	41.0
Substandard	27.8	23.5	21.9	23.2	21.2
Doubtful	69.1	69.7	77.7	74.0	58.7
Estimated loss	91.8	85.8	89.9	92.2	93.3

For consumer loans, we establish loan loss allowances based on historical performance, previous loan loss history and charge-off information. Additional factors that management considers when establishing reserves for homogeneous pools of consumer loans include, but are not limited to, economic events, delinquencies and changes in underwriting and credit monitoring policies.

The actual amount of incurred credit losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred credit losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the use of models to estimate incurred credit losses in those portfolios.

Management regularly evaluates the adequacy of the overall allowance for credit losses and we believe that the allowance for credit losses reflects management s best estimate of probable credit losses as of each balance sheet date.

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Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated:

As of December 31,	Normal amount	%	Amount past due 1-3 months	%	Amount past due 3-6 months	%	Amount past due more than 6 months	%	Total amount
				(in billions of Won, except percentages)					
2004	(Won) 133,743	96.8%	(Won) 1,207	0.9%	(Won) 701	0.5%	(Won) 2,473	1.8%	(Won) 138,124
2005	134,079	97.1	784	0.6	561	0.4	2,588	1.9	138,012
2006	148,723	98.2	537	0.4	302	0.2	1,841	1.2	151,403

Non-Accrual Loans and Past Due Accruing Loans

We generally place loans on non-accrual status when payments of interest and/or principal become past due by one day. We no longer recognize interest on these loans from the date the loan is placed on non-accrual status. We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. We generally do not recognize interest income on non-accrual loans unless collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2006, we would have recorded gross interest income of (Won)484 billion compared to (Won)599 billion for the year ended December 31, 2005 and (Won)763 billion for the year ended December 31, 2004 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2004, 2005 and 2006 was (Won)258 billion, (Won)434 billion and (Won)340 billion, respectively.

The category accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Corporation or certain financial institutions.

The following table shows, at the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans which were past due one day or more:

	2002	2003	As of December 31, 2004	2005	2006
			(in billions of Won)		
Loans accounted for on a non-accrual basis					
Corporate	(Won) 2,578	(Won) 2,883	(Won) 2,975	(Won) 2,818	(Won) 1,875
Consumer	9,756	9,298	6,590	5,271	4,416
Sub-total	12,334	12,181	9,565	8,089	6,291
Accruing loans which are contractually past due one day or more as to principal or interest [(1)]					
Corporate	268	167	91	111	60
Consumer	2,689	2,481	1,020	1,198	688
Sub-total	2,957	2,648	1,111	1,309	748
Total	(Won) 15,291	(Won) 14,829	(Won) 10,676	(Won) 9,398	(Won) 7,039

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)82 billion, (Won)39 billion, (Won)11 billion, (Won)22 billion and (Won)5 billion of corporate loans as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

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Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under U.S. GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won)				
Loans, which are classified as troubled debt restructurings	(Won) 1,662	(Won) 1,338	(Won) 1,050	(Won) 613	(Won) 446

For 2006, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)33 billion, out of which (Won)32 billion was reflected as interest income during 2006.

Potential Problem Loans

As of December 31, 2006, we had (Won)808 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future.

Other Problematic Interest Earning Assets

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2002, we had debt securities with an amortized cost of (Won)79 billion and a market value of (Won)93 billion on which interest was past due. As of December 31, 2003, 2004, 2005 and 2006, we did not have any debt securities on which interest was past due.

Non-Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. These loans are generally classified as substandard or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see Provisioning Policy above.

The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	As of December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won, except percentages)				
Total non-performing loans	(Won) 3,912	(Won) 4,116	(Won) 3,175	(Won) 3,149	(Won) 2,143
As a percentage of total loans	2.7%	2.8%	2.3%	2.3%	1.4%

The above table does not reflect the amount of loans classified as substandard or below that we or any of our predecessor operations sold to Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry and other parties.

We have also issued securities backed by non-performing loans and collateralized bond obligations. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings.

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Analysis of Non-Performing Loans

The following table sets forth, as of the dates indicated, our total non-performing loans by type of borrower:

	As of December 31,									
	2002		2003		2004		2005		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic:										
Corporate										
Commercial and industrial	(Won) 1,284	32.8%	(Won) 1,376	33.4%	(Won) 1,548	48.8%	(Won) 1,526	48.5%	(Won) 1,335	62.3%
Construction	403	10.3	264	6.4	250	7.9	223	7.1	149	7.0
Lease financing										0.0
Other corporate	23	0.6	13	0.4	11	0.4	5	0.2	3	0.1
Total corporate	1,710	43.7	1,653	40.2	1,809	57.0	1,754	55.7	1,487	69.4
Retail										
Mortgage and home equity	699	17.9	1,150	27.9	1,088	34.3	855	27.1	484	22.6
Other consumer	577	14.8	463	11.4	241	7.6	516	16.4	145	6.8
Total retail	1,276	32.7	1,613	39.3	1,329	41.9	1,371	43.5	629	29.4
Credit cards	905	23.1	723	17.4	32	1.0	21	0.7	26	1.2
Total domestic	3,891	99.5	3,989	96.9	3,170	99.9	3,146	99.9	2,142	100
Foreign:										
Corporate										
Commercial and industrial	21	0.5	127	3.1	5	0.1	3	0.1	1	0.0
Total foreign	21	0.5	127	3.1	5	0.1	3	0.1	1	0.0
Total non-performing loans	(Won) 3,912	100.0%	(Won) 4,116	100.0%	(Won) 3,175	100.0%	(Won) 3,149	100.0%	(Won) 2,143	100.0%

Top 20 Non-Performing Loans

As of December 31, 2006, our 20 largest non-performing loans accounted for 8.9% of our total non-performing loan portfolio. The following table shows, as of December 31, 2006, certain information regarding our 20 largest non-performing loans:

	Industry	Gross principal outstanding	Allowance for loan losses
		(in billions of Won)	
Borrower A	Finance and insurance	(Won) 25	(Won) 22
Borrower B	Real Estate	24	20
Borrower C	Real Estate	22	12
Borrower D	Real Estate	16	11
Borrower E	Finance and insurance	11	11
Borrower F	Retail and wholesale	10	1

Borrower G	Manufacturing	8	8
Borrower H	Construction	7	2
Borrower I	Other	7	0
Borrower J	Construction	7	6
Borrower K	Transportation	7	3
Borrower L	Retail and wholesale	7	2
Borrower M	Manufacturing	6	5
Borrower N	Construction	5	5
Borrower O	Other	5	0
Borrower P	Other	5	5
Borrower Q	Construction	5	5
Borrower R	Manufacturing	5	5
Borrower S	Real Estate	5	0
Borrower T	Construction	5	0
Total		(Won) 192	(Won) 123

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Most of our loans to companies in workout or restructuring were not classified as non-performing as of December 31, 2006 because such loans had been rescheduled and payments on such rescheduled loans were not past due by more than 90 days.

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating systems, we believe that we have reduced our risks relating to future non-performing loans. Our credit rating systems are designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower s credit rating. Our early warning system is designed to bring any sudden increase in a borrower s credit risk to the attention of our loan officers, who then closely monitor such loans. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower s assets, send a notice either demanding payment or stating that we will take legal action and prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. While the overall process is the responsibility of the Credit Group, actual recovery efforts on non-performing loans are handled by one of our regional credit management centers, the Corporate Restructuring Department or one of our regional non-performing loan management teams.

In addition, we use the services of our loan collection subsidiary, KB Credit Information Co., Ltd. (formerly known as Kookeun Credit Information Co., Ltd.), of which we own 99.7% of the outstanding share capital. KB Credit Information receives payments from recoveries made on charged-off loans and loans that are overdue for over six months (three months in the case of credit card loans). KB Credit Information has over 2,000 employees, including loan recovery experts, legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. The amount recovered was (Won)225 billion in 2004, (Won)660 billion in 2005, and (Won)545 billion in 2006.

Methods for resolving non-performing loans include the following:

(i) For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:

- non-performing loans are transferred from the operating branch or call center to our regional non-performing loan management centers;
- a demand note is dispatched by mail if payment is generally two months past due;

calls and visits are made by our regional non-performing loan management staff to customers encouraging them to make payments;

borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans;

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- preparations are made to use judicial means, including foreclosure and auction of the collateral; and
- credit card loans are transferred to KB Credit Information for collection.

(ii) For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:

- for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced;
- for unsecured loans other than credit card loans, the loans are transferred to KB Credit Information for collection; and
- borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans.

(iii) For loans in arrears for over one year:

- for individual housing loans, foreclosure and auction proceeding are commenced;
- in the case of unsecured loans, the loans are treated as loan losses; and
- charged off loans are given to KB Credit Information for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to our Credit Management Department, to one of our regional credit management centers or to KB Credit Information.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

- selling our non-performing loans to third parties including the Korea Asset Management Corporation; and
- entering into asset securitization transactions with respect to our non-performing loans.

We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized under U.S. GAAP as sale transactions.

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Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type. The ratio represents the percentage of loans in each category to total loans.

	As of December 31,									
	2002		2003		2004		2005		2006	
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	(Won) 1,525	27.5%	(Won) 1,644	28.1%	(Won) 1,912	27.8%	(Won) 1,691	28.7%	(Won) 1,444	31.9%
Construction	423	4.4	332	4.2	376	3.2	240	3.6	179	4.3
Lease financing										
Other corporate	34	0.7	28	0.5	25	0.6	18	1.1	12	0.9
Total corporate	1,982	32.6	2,004	32.8	2,313	31.6	1,949	33.4	1,635	37.1
Retail										
Mortgage and home equity	63	31.7	68	36.0	246	42.0	173	42.9	173	42.3
Other consumer	483	19.2	1,102	19.7	1,168	18.8	739	16.7	441	14.2
Total retail	546	50.9	1,170	55.7	1,414	60.8	912	59.6	614	56.5
Credit cards	2,597	15.5	2,537	10.5	696	6.8	331	6.1	205	5.9
Foreign [(1)]	70	1.0	61	1.0	38	0.8	20	0.9	14	0.5
Total allowance for loan losses	(Won) 5,195	100.0%	(Won) 5,772	100.0%	(Won) 4,461	100.0%	(Won) 3,212	100.0%	(Won) 2,468	100.0%

(1) Consists of loans to corporations.

Our total allowance for loan losses was (Won)4,461 billion as of December 31, 2004. During 2005, the allowance for loans losses decreased by (Won)1,249 billion, or 28.0%, to (Won)3,212 billion as of December 31, 2005. During 2006, the allowance for loans losses decreased by (Won)744 billion, or 23.2%, to (Won)2,468 billion as of December 31, 2006.

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Analysis of Allowance for Loan Losses

The following table analyzes our loan loss experience for each of the years indicated:

	Year ended December 31				
	2002	2003	2004	2005	2006
	(in billions of Won, except percentages)				
Balance at the beginning of the period	(Won) 3,508	(Won) 5,195	(Won) 5,772	(Won) 4,461	(Won) 3,212
Amounts charged against income	3,909	7,192	3,860	433	(195)
Allowance relating to loans repurchased from the Korea Asset Management Corporation	6	6			
Allowance relating to other loans repurchased			6		
Allowance relating to loans acquired in the merger with H&CB	(164)				
Allowance relating to newly consolidated entities			9		
Gross charge-offs:					
Domestic:					
Corporate					
Commercial and industrial	486	1,056	976	726	480
Construction	65	80	103	9	55
Lease financing					
Other corporate	16	13	8	9	15
Retail					
Mortgage and home equity	29	34	181	112	90
Other consumer	209	745	1,313	533	394
Credit cards	1,527	5,290	3,313	868	301
Foreign:	115	59	20		
Total gross charge-offs	(2,447)	(7,277)	(5,914)	(2,257)	(1,335)
Recoveries:					
Domestic:					
Corporate					
Commercial and industrial	117	99	56	114	86
Construction	2	7	40	3	6
Other corporate	29	16	2	2	2
Retail					
Mortgage and home equity	9	5	1	3	137
Other consumer	53	59	71	114	198
Credit cards	155	452	554	338	357
Foreign:	18	18	4	1	
Total recoveries	383	656	728	575	786
Net charge-offs	(2,064)	(6,621)	(5,186)	(1,682)	(549)
Balance, at the end of the period	(Won) 5,195	(Won) 5,772	(Won) 4,461	(Won) 3,212	(Won) 2,468
Ratio of net charge-offs during the period to average loans outstanding during the period	1.6%	4.5%	3.6%	1.2%	0.4%

Loan Charge-Offs

Basic Principles

We attempt to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, we charge off loans subject to our charge-off policy at an early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce our non-performing loan ratio.

Loans To Be Charged Off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for four payment cycles or more and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations), and those that have been overdue for more than six months; and
- the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

In order to charge off corporate loans under Korean GAAP, an application for a charge-off must be submitted to our Credit Management Department promptly after the corporate loan is classified as estimated loss or deemed uncollectible. The Credit Management Department refers the charge-off application to our Branch Auditing Department for their review to ensure compliance with our internal procedures for charge-offs. Then, the Credit Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from our senior management to charge off those loans. With respect to corporate loans under U.S. GAAP, we follow a similar procedure (although we will not seek approval from the Financial Supervisory Service).

With respect to credit card balances (and, under U.S. GAAP, unsecured retail loans), we follow a different process to determine which credit card balances and unsecured retail loans should be charged off, based on the length of time those loans or balances are past due. Under Korean GAAP, we charge off unsecured retail loans deemed to be uncollectible and credit card balances which have been overdue for four payment cycles or more or which have been classified as expected loss. Under U.S. GAAP, we follow a similar procedure, in addition to charging off any unsecured retail loans or credit card balances which have not been charged off under Korean GAAP but are more than six months overdue.

Treatment of Loans Charged Off

Once loans are charged off, we classify them as charged-off loans and remove them from our balance sheet. These loans are managed based on a different set of procedures. We continue our collection efforts in respect of these loans, including through our subsidiary, KB Credit Information, although loans may be charged off before we begin collection efforts in some circumstances.

If a collateralized loan is overdue, we will, typically within one year from the time that such loan became overdue (or after a longer period in certain circumstances), petition a court to foreclose and sell the collateral

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through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Supervisory Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)500 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit.

On April 1, 2006, the Law Concerning Credit Restoration and Bankruptcy took effect and replaced the Individual Debtor Rehabilitation Law. Under the Law Concerning Credit Restoration and Bankruptcy, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

The Corporate Banking Group, Capital Markets & Treasury Group and the Risk Management Department supervise our investment and trading activities. In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Bank Act. Under these regulations, we must limit our investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of our total Tier I and Tier II capital amount (less any capital deductions). Generally, we are also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to an amendment to the Bank Act which became effective in July 2002, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of major shareholder, see Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholders) of that bank in excess of an amount equal to 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies.

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The following table sets out the definitions of the primary categories of investments we hold:

Investment category	Definition
Held-to-maturity securities	Held-to-maturity securities are securities for which we have the positive ability and intent to hold to maturity and are recorded at amortized cost, adjusted for accretion or amortization of discounts and premiums. Declines in the fair value of individual held-to-maturity securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair values. Such write-downs are reflected as realized losses in our income statement and cannot be subsequently reversed.
Available-for-sale securities	Securities are classified as available-for-sale when we intend to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Available-for-sale securities are reported at fair value with unrealized gains and losses being recorded in accumulated other comprehensive income within stockholders equity. Other-than-temporary declines in the fair value of available-for-sale securities below cost result in write-downs to their fair value. Such write-downs are reflected as realized losses in our income statement and cannot be subsequently reversed.
Trading securities	Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized and realized gains and losses being recorded immediately in our income statement.

We also hold limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments:

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Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated:

	As of December 31,					
	2004		2005		2006	
	Book value	Market value	Book value	Market value	Book value	Market value
			(in billions of Won)			
Available-for-sale securities:						
Equity securities	(Won) 252	(Won) 252	(Won) 128	(Won) 128	(Won) 1,007	(Won) 1,007
Debt securities						
Korean treasury securities and government agency securities	3,736	3,736	3,394	3,394	3,708	3,708
Debt securities issued by financial institutions	11,135	11,135	9,931	9,931	8,184	8,184
Corporate debt securities	818	818	570	570	589	589
Debt securities issued by foreign governments	42	42	19	19	9	9
Asset-backed securities	167	167	112	112	151	151
Other debt securities			1	1		
Total available-for-sale	16,150	16,150	14,155	14,155	13,648	13,648
Held-to-maturity securities:						
Debt securities						
Korean treasury securities and government agency securities	4,748	4,954	6,209	6,078	8,316	8,271
Debt securities issued by financial institutions	1,242	1,247	3,870	3,828	2,227	2,214
Corporate debt securities	65	66	125	120	215	212
Debt securities issued by foreign governments						
Asset-backed securities	113	115	294	290	205	203
Total held-to-maturity	6,168	6,382	10,498	10,316	10,963	10,900
Trading securities:						
Equity securities	249	249	201	201	145	145
Debt securities						
Korean treasury securities and government agency securities	916	916	1,756	1,756	478	478
Debt securities issued by financial institutions	2,479	2,479	1,595	1,595	1,951	1,951
Corporate debt securities	6	6				
Asset-backed securities	45	45				
Total trading	3,695	3,695	3,552	3,552	2,574	2,574
Total securities	(Won) 26,013	(Won) 26,227	(Won) 28,205	(Won) 28,023	(Won) 27,185	(Won) 27,122

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Maturity Analysis

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2006:

	As of December 31, 2006											
	Within 1 year	Weighted average yield(1)	Over 1 but within 5 years	Weighted average yield(1)	Over 5 but within 10 years	Weighted average yield(1)	Over 10 years	Weighted average yield(1)	Securities not due at a single maturity	Weighted average yield(1)	Total	Weighted average yield(1)
	(in billions of Won, except percentages)											
Available-for-sale securities:												
Korean treasury securities and government agencies	(Won) 710	4.39%	(Won) 2,978	2.68%	(Won) 20	2.20%					(Won) 3,708	3.01%
Debt securities issued by financial institutions	3,861	3.70	4,243	2.32	61	1.95	(Won) 19	1.86%			8,184	2.96
Corporate debt securities	116	4.86	386	4.31	20	3.97			(Won) 67	1.32%	589	4.07
Debt securities issued by foreign governments					9	0.94					9	0.94
Asset-backed securities	72	2.90	65	4.72	9	2.18	5	4.74%			151	3.68
Other debt securities												
Total	(Won) 4,759	3.82%	(Won) 7,672	2.58%	(Won) 119	2.26%	(Won) 24	2.43%	(Won) 67	1.32%	(Won) 12,641	3.04%
Held-to-maturity securities												
Korean treasury securities and government agencies	1,331	5.36	4,622	4.17	2,361	3.64			2	5.47	8,316	4.21
Debt securities issued by financial institutions	1,887	3.91	310	3.75	30	0.34					2,227	3.84
Debt securities issued by foreign governments												
Corporate debt securities			155	2.61	60	2.48					215	2.57
Asset-backed securities	10	4.10	195	4.27							205	4.26
Other debt securities												
Total	(Won) 3,228	4.51%	(Won) 5,282	4.10%	(Won) 2,451	3.57%			(Won) 2	5.47%	(Won) 10,963	4.10%
Trading securities:												
Korean treasury securities and government agencies	117	3.81	115	2.99	246	3.80					478	3.61
Debt securities issued by financial institutions	235	3.27	1,716	1.66							1,951	1.85

Debt securities issued by foreign government										
Corporate debt securities										
Asset-backed securities										
Other trading securities										
Total	(Won) 352	3.45%	(Won) 1,831	1.74%	(Won) 246	3.80%			(Won) 2,429	2.20%

(1) The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity securities and the fair value in the case of available-for-sale securities and trading securities).

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Concentrations of Risk

As of December 31, 2006, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders equity at such date, which was (Won)14,772 billion:

	Book value	Market value
	(in billions of Won)	
Name of issuer:		
Korean government	(Won) 10,182	(Won) 10,150
Bank of Korea	8,710	8,705
Total	(Won) 18,892	(Won) 18,855

The Bank of Korea is controlled by the Korean government.

Funding

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits. In addition, we acquire funding through long-term debt, short-term borrowings, including borrowings from the Bank of Korea, and call money.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 78.7% of total funding as of December 31, 2004, 79.6% of total funding as of December 31, 2005 and 76.4% of total funding as of December 31, 2006.

In addition, we acquire funding by issuing bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and government-affiliated funds. Such borrowings are generally long-term borrowings, with maturities ranging from one year to 20 years.

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated:

	2004		2005		2006	
	Average balance[1]	Average rate paid	Average balance[1]	Average rate paid	Average balance[1]	Average rate paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	(Won) 2,832		(Won) 3,010		(Won) 3,173	
Interest-bearing	620	0.16%	614	1.14%	625	1.76%
Time deposits:						
Certificates	6,107	4.06	5,007	3.69	8,386	4.52
Other time deposits	68,230	3.98	66,229	3.61	62,015	3.92
Savings deposits	39,042	0.79	38,343	0.57	41,652	0.71
Mutual installment deposits [2]	12,105	4.63	10,589	3.61	8,511	3.40
Average total deposits	(Won) 128,936	2.97	(Won) 123,792	2.57	(Won) 124,362	2.74

(1) Average balances are based on daily balances for our primary banking operations and subsidiaries.

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(2) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible for our loans while they maintain an account with us. The customer s account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

For a description of our retail deposit products, see Business Retail Banking Lending Activities Mortgage and Home Equity Lending and Business Retail Banking Deposit-Taking Activities.

Certificates of Deposit and Other Time Deposits

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million as of December 31, 2006:

	Certificates of deposit	Other time deposits	Mutual installment deposits	Total
		(in billions of Won)		
Maturing within three months	(Won) 5,865	(Won) 5,807	(Won) 197	(Won) 11,869
After three but within six months	2,450	2,903	119	5,472
After six but within 12 months	995	11,677	157	12,829
After 12 months		2,601	183	2,784
Total	(Won) 9,310	(Won) 22,988	(Won) 656	(Won) 32,954

A majority of our other time deposits issued by our overseas branches is in the amount of US$100,000 or more.

Long-term debt

The aggregate amount of contractual maturities of all long-term debt at December 31, 2006 was as follows:

	At December 31, 2006 (in billions of Won)
Due in 2007	(Won) 4,042
Due in 2008	8,119
Due in 2009	1,835
Due in 2010	1,821
Due in 2011	970
Thereafter	4,888
Gross long-term debt	21,675
Plus: Premium	
Total long-term debt, net	(Won) 21,675

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Short-term borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the year ended December 31, 2004	2005	2006
	(in billions of Won, except percentages)		
Call money:			
Year-end balance	(Won) 652	(Won) 1,254	(Won) 168
Average balance [1]	1,267	1,218	2,825
Maximum balance	3,773	2,305	3,220
Average interest rate [2]	3.31%	3.28%	4.21%
Year-end interest rate	0.27-6.85%	3.40-4.45%	4.08-7.50%
Borrowings from the Bank of Korea: [3]			
Year-end balance	(Won) 922	(Won) 647	(Won) 682
Average balance [1]	911	687	653
Maximum balance	1,073	972	1,059
Average interest rate [2]	2.41%	2.04%	2.30%
Year-end interest rate	2.00%	2.00-4.67%	2.75%
Other short-term borrowings: [4]			
Year-end balance	(Won) 8,592	(Won) 5,471	(Won) 9,945
Average balance [1]	8,150	7,474	7,574
Maximum balance	8,592	9,387	10,020
Average interest rate [2]	3.80%	3.68%	4.48%
Year-end interest rate	0.15-17.69%	0.00-7.73%	0.53-5.95%

(1) Average outstanding balances have been calculated using daily averages.
(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings and debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by securities totaling (Won)726 billion as of December 31, 2006.

Supervision and Regulation

Legal and Regulatory Framework

The banking system in Korea is governed by the Bank Act of 1950, as amended (the Bank Act) and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act). In addition, Korean banks come under the regulations and supervision of the Bank of Korea, the Monetary Policy Committee, the Financial Supervisory Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

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Under the Bank of Korea Act, the Monetary Policy Committee s primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea.

The Financial Supervisory Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and prepares regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, the Financial Supervisory Commission, instead of the Ministry of Finance and Economy, now regulates market entry into the banking business.

The Financial Supervisory Service was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Supervisory Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the Financial Supervisory Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the Financial Supervisory Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the Financial Supervisory Commission. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Supervisory Commission.

If the Korean government deems our financial condition to be unsound or if we fail to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of (Won)100 billion and regional banks to maintain a minimum paid-in capital of (Won)25 billion. All banks, including foreign bank

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branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Enforcement Detailed Rules on the Supervision of Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of shareholders equity, capital surplus, retained earnings, unpaid stock dividends and hybrid Tier I capital instruments. Tier II capital (supplementary capital) consists of revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Supervisory Commission requirements that have been formulated based on Bank of International Settlements (BIS) standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In November 2002, the Financial Supervisory Service amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans. As a result, for certain home mortgage loans extended after November 13, 2002, Korean banks must apply a risk-weight ratio of 60% if either of the following two conditions are satisfied, and a risk-weight ratio of 70% if both conditions are satisfied:

(1) if the home mortgage loans are overdue for at least 30 consecutive days as of the date of calculating the bank s BIS capital adequacy ratio, or there were at least 30 overdue days during the one year period preceding the date on which the bank s BIS capital adequacy ratio is calculated; and

(2) the borrower s debt ratio (which is the ratio of the borrowers total outstanding borrowings, including borrowings from other financial institutions, to the borrower s annual income) exceeds 250%.

For all other home mortgage loans, the bank must apply a 50% risk-weight ratio.

Under the Regulation on the Supervision of the Banking Business most recently amended on December 22, 2006, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including guarantees, and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.7% of normal credits (or 1.0% in the case of normal credits comprising loans to individuals and households, and 1.5% in the case of normal credits comprising outstanding credit card receivables and card loans);
- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, and 15% in the case of precautionary credits comprising outstanding credit card receivables and card loans);
- 20% of substandard credits;
- 50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and
- 100% of estimated loss credits.

Furthermore, under a recent amendment to the Regulation on the Supervision of the Banking Business, Korean banks must establish allowances in respect of any confirmed guarantees (including confirmed acceptances) and outstanding unused credit line as of the date of settlement in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

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See Recent Regulations Relating to Retail Household Loans and Credit Card Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Rules on the Supervision of the Banking Business. Banks may not invest an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea. The Financial Supervisory Commission also requires each Korean bank to:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 0%; and
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%.

The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 7% of average balances for Won currency demand deposits outstanding;
- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and
- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to demand deposits and other deposits. A 1% minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, the sum of large exposures by a bank in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

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Recent amendments to the Bank Act, which became effective on July 28, 2002, strengthened restrictions on extending credits to a major shareholder. A major shareholder is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank s total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than (Won)2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Under these amendments, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank s Tier I and Tier II capital (less any capital deductions). However, the foregoing restrictions do not apply to the Korea Deposit Insurance Corporation, in the event that the Korea Deposit Insurance Corporation becomes a major shareholder in the process of restructuring of a bank.

Interest Rates

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank s interest expense.

Lending to Small- and Medium-sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or

- lower the bank s credit limit.

Disclosure of Management Performance

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the Financial Supervisory Commission requires commercial banks to make mandatory public disclosures of the following in addition to the disclosure regulations generally applicable to listed companies:

loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where

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the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than (Won)4 billion;

the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result of that financial incident, or the governor of the Financial Supervisory Service has made a public announcement regarding the incident; and

any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than (Won)1 billion.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

loans for the purpose of speculation in commodities or securities;

loans directly or indirectly secured by a pledge of a bank s own shares, or secured by a pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);

loans directly or indirectly to enable a natural or juridical person to buy the bank s own shares;

loans directly or indirectly to finance political campaigns or related activities;

loans to any of the bank s officers or employees, other than petty loans of up to (Won)20 million in the case of a general loan, (Won)50 million in the case of a general loan plus a housing loan or (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or

loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to (Won)20 million or general and housing loans of up to (Won)50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

The Financial Supervisory Commission recently implemented a number of changes to the mechanisms by which a bank evaluates and report its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the Financial Supervisory Commission and the Financial Supervisory Service increased the minimum provisioning requirements for retail household loans. These requirements, set forth in the following table, became effective on December 31, 2006:

Asset Quality Classification	Provisioning ratio on retail household loans

	Before	Current
Normal	0.75% or above	1.0% or above
Precautionary	8.0% or above	10.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	55.0% or above	55.0% or above
Estimated loss	100.0%	100.0%

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In addition, due to a rapid increase in the number of loans secured by homes and other forms of housing, the Financial Supervisory Commission and the Financial Supervisory Service implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

- as to loans secured by a collateral of housing located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60%;

- as to loans secured by collateral of housing located in areas of excessive investment as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;

- as to loans secured by apartments located in areas of high speculation as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over (Won)600 million, and (b) 60%, if the price of such apartment is (Won)600 million or lower;

- as to loans secured by apartments with appraisal value of more than (Won)600 million in areas of high speculation as designated by the government or certain metropolitan areas designated as areas of excessive investment by the government, the borrower s debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower s annual income) should not exceed 40%;

- as to apartments located in areas of high speculation as designated by the government, a borrower is permitted to have only one new loan secured by such apartment;

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and

- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the government should not exceed 40%.

See Item 3D. Risk Factors Risks relating to government regulation and policy Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may adversely affect our retail banking operations.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60% of the sum of the bank s Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

that corporation engages in a category of financial businesses set forth by the Financial Supervisory Commission; or

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the acquisition is necessary for the corporate restructuring of the corporation and is approved by the Financial Supervisory Commission.

In the above exceptional cases, a bank must satisfy either of the following requirements:

the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank s outstanding voting shares, unless they obtain the approval of the Financial Supervisory Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares, and in excess of 10%, 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Supervisory Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Supervisory Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Supervisory Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the Korea Deposit Insurance Corporation on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.05% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation makes a payment on an insured amount, it will acquire the depositors claims with respect to that payment amount. The Korea Deposit Insurance Corporation insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003 and therefore the whole amount deposited in such accounts is protected.

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Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Law, each of a bank s net overpurchased and oversold positions may not exceed 50% of its shareholders equity as of the end of the prior month.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Finance and Economy to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Supervisory Commission to enter the securities business, which is governed by regulations under the Korean Securities and Exchange Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Trust Business

A bank must obtain approval from the Financial Supervisory Commission to engage in trust businesses. The Trust Act and the Trust Business Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank, which requires that banks engaged in both banking and trust businesses must maintain two separate accounts and two separate sets of records; and

- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed. In addition, a trust bank must deposit with a court an amount equal to 0.02% of its paid-in capital for each fiscal year, until the aggregate amount of those deposits equals 2.5% or more of its paid-in capital. If that bank breaches its duty of care as a trustee and causes losses to its customers, the court deposits are available as compensation.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust accounts under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. Under the Indirect Investment Asset Management Business Act, a bank is not permitted to offer current unspecified money trust account products after July 5, 2004 (except under certain limited circumstances), unless it is qualified as an asset management company by such date. Investment trust products will need to be established pursuant to a trust contract entered into between an asset management company and a trustee.

In the event that a bank qualifies and operates as an asset management company, a trustee or a custodian under the Indirect Investment Asset Management Business Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business and the trustee or custodian business. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

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In addition, a bank is also required to establish an Indirect Investment Asset Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

Credit Card Business

General

In order to enter the credit card business, a bank must register with the Financial Supervisory Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on April 11, 2007. A registered bank engaging in the credit card business is regulated by the Financial Supervisory Commission and the Financial Supervisory Service.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business must submit its business reports and reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter and each month.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A registered bank engaging in the credit card business is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. A registered bank engaging in the credit card business may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the registered bank engaging in the credit card business and members of such cards specifically provide for that transfer.

For these purposes, disclosure of a customer s password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence. However, a disclosure of a cardholder s password that is made under irresistible force or threat to cardholder or his/her relatives life or health will not be deemed as willful misconduct or negligence of the cardholder.

Each registered bank engaging in the credit card business must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Pursuant to the Enforcement Decree to Specialized Credit Financial Business Act, a registered bank engaging in the credit card business will be liable for any losses arising from loss or theft of a credit card (which was not from the holder s willful misconduct or negligence) during the period beginning 60 days before the notice by the holder to the registered bank engaging in the credit card business.

Pursuant to the Specialized Credit Financial Business Act, the Financial Supervisory Commission may either restrict the limit or take other necessary measures against the registered bank engaging in the credit card business with respect to the following:

- maximum limits for cash advances on credit cards;

- use restrictions on debit cards with respect to per day or per transaction usage; or

- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

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Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act issued in December 2003, a registered bank engaging in the credit card business must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume; provided that, in the case that any bank engaged in the credit card business was unable to meet this lending ratio as of December 31, 2003, such bank would have been granted an extended compliance period until December 31, 2007 during which to achieve such lending ratio. Any bank availing itself of such extended compliance period was also required to submit to the Financial Supervisory Commission, no later than January 31, 2004, a detailed plan setting forth how such bank intended to achieve compliance by December 31, 2007.

Issuance of New Cards and Solicitation of New Cardholders

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a registered bank engaging in the credit card business may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

- persons who are at least 18 years old when they apply for a credit card;
- persons whose capability to pay bills as they come due has been verified using standards established by the registered bank engaging in the credit card business; and
- in the case of minors who are at least 18 years and younger than 20 years, persons who submit a guardian s consent along with documents evidencing income, such as an employment certificate or a tax certificate.

In addition, a registered bank engaging in the credit card business may not solicit credit card members by:

- providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be deemed to be (Won)10,000) in connection with issuing a credit card;
- soliciting applicants on roads, public places or along corridors used by the general public;
- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area; and
- soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a registered bank engaging in the credit card business may not:

- exert violence or threaten violence;
- inform a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s obligations without just cause;

provide false information relating to the debtor s obligation to the debtor or his or her related parties;

threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

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Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and an amendment to such law was enacted as of March 10, 2005. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;
- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;
- claims for damages caused by insider trading or market manipulation; and
- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

The Law on Class Actions Regarding Securities took effect on January 1, 2007 with respect to companies with a total asset value of less than (Won)2 trillion, and took effect on January 1, 2005 for all other companies and will apply retroactively to all applicable claims arising out of acts committed since its enactment.

An amendment of the new law delayed its effectiveness until December 31, 2006 with respect to claims against companies and their auditors in cases where such companies took steps to correct any accounting irregularities.

Item 4C. ***Organizational Structure***

We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2006, including contribution to our total assets, net income, operating income and stockholders equity:

Subsidiary	Percentage of ownership	Total assets	Stockholders equity	Operating income	Net income
			(in millions of Won)		
KB Data Systems Co., Ltd.	99.99%	(Won) 33,462	(Won) 17,578	(Won) 3,075	(Won) 2,270
KB Futures Co., Ltd.	99.98	67,102	28,054	2,520	1,801
KB Investment Co., Ltd.	99.99	110,589	108,725	(2,880)	(2,880)
KB Asset Management Co., Ltd.	80.00	92,175	81,514	32,375	23,769
KB Real Estate Trust Co., Ltd.	99.99	243,192	136,387	24,330	17,663
KB Credit Information Co., Ltd.	99.73	43,936	35,391	10,278	7,482
Kookmin Bank Hong Kong Ltd.	100.00	399,943	75,522	7,755	7,713
Kookmin Bank International Ltd.	100.00	332,054	69,707	4,735	3,784

Further information regarding our subsidiaries is provided below:

KB Data Systems Co., Ltd. was established in Korea in September 1991 to provide software services to us and other financial institutions.

KB Futures Co., Ltd. was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions.

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KB Investment Co., Ltd. was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises. KB Investment was merged with Frontier Investment Co., Ltd. and Kookmin Venture Capital Co., Ltd. effective as of December 31, 2001 and June 27, 2002, respectively. KB Investment was formerly known as Kookmin Bank Venture Capital Co., Ltd. until May 25, 2002.

KB Asset Management Co., Ltd. was established in April 1988 as a subsidiary of Citizens Investment Trust Company to provide trust account investment services. KB Asset Management was formerly known as Jooeun Investment Management Co., Ltd. until June 10, 2002.

KB Real Estate Trust Co., Ltd. was established in December 1996 to provide real estate development and brokerage services and assist small- and medium-sized construction companies by managing trusts related to the real estate industry. KB Real Estate Trust was formerly known as Jooeun Real Estate Trust Co., Ltd. until September 16, 2002.

KB Credit Information Co., Ltd. was established in October 1999 to collect delinquent loans and to check credit history. KB Credit Information was formerly known as Kookeun Credit Information Co., Ltd. (and prior to that was known as Jooeun Credit Information Co, Ltd.) and was merged with KM Credit Information Co., Ltd. on May 2, 2002.

Kookmin Bank Hong Kong Ltd. was established in July 1995 to provide a broad range of corporate banking services.

Kookmin Bank International Ltd. was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.

Other Subsidiaries. For the year ended December 31, 2006, we derived operating income of (Won)236 billion and net income of (Won)236 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Item 4D. *Property, Plants and Equipment*

Our registered office and corporate headquarters are located at 9-1, 2-ga, Namdaemoon-ro, Jung-Gu, Seoul 100-703, Korea. The following table presents information regarding certain of our properties in Korea:

Type of facility/building	Location	Area (square meters)
Registered office and corporate headquarters	9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703	1,749
Headquarters building	36-3, Yoido-dong, Youngdeungpo-gu, Seoul 150-758	5,354
Headquarters building	Yoido, Seoul	5,928
Headquarters building	Yoido, Seoul	2,006
Headquarters building	Jongro-gu, Seoul	3,704
Training institute	Ilsan	207,659
Training institute	Daechon	4,158
Training institute	Sokcho	15,584
Training institute	Cheonan	196,649
IT center	Seoul	13,116

IT center	Seoul	4,748

As of December 31, 2006, we had a countrywide network of 1,132 branches and sub-branches. Approximately one-third of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong and the United Kingdom and branches in Tokyo in Japan, Auckland in New Zealand and New York in the United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2006 was (Won)1,152 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the U.S. Securities and Exchange Commission staff regarding our periodic reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5A. ***Operating Results***

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. As part of the Korean government s structural reform program, which stemmed from the economic difficulties in Korea in 1997 and 1998, the government made significant changes to the regulations governing financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity and minimum capital requirements.

Financial and economic conditions generally improved in Korea from 1999. The general level of interest rates decreased, consumer spending and consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, many large corporations, including those to which we have credit and other exposure, are experiencing significant financial difficulties. Furthermore, substantial growth in lending to small- and medium-sized enterprises has in recent years led to increasing delinquencies and a deterioration in overall asset quality, which began to stabilize in 2006. In 2006, under Korean GAAP, we recorded charge-offs of (Won)391 billion and provisions of (Won)271 billion in respect of our loans to small- and medium-sized enterprises, compared to charge-offs of (Won)470 billion and provisions of (Won)261 billion in 2005. See Item 3D. Risk Factors Risk relating to our small- and medium-sized enterprise loan portfolio.

In addition, the significant increase in retail and credit card debt has led to a deterioration in the asset quality of the retail loans and credit card receivables of Korean financial institutions. In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea made significant investments and engaged in aggressive marketing in these areas, leading to substantially increased competition in the retail lending and credit card segments. However, the rapid growth in retail lending and credit card usage has led to increasing delinquencies, loan loss provisions, non-performing loans and charge-offs. In 2006, we recorded charge-offs of (Won)301 billion in respect of our credit card portfolio, compared to charge-offs of (Won)868 billion in 2005. We also recorded charge-offs of (Won)484 billion in respect of our retail loan portfolio in 2006, compared to charge-offs of (Won)645 billion in 2005. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

As a result of growing concerns regarding the high levels of consumer borrowing and credit card usage in Korea and the deterioration in the retail lending and credit card portfolios of Korean financial institutions, the

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Korean government has implemented various changes to the regulations governing retail loans and credit card operations generally. See Item 3D. Risk Factors Risks relating to government regulation and policy and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

As a result of the developments in the Korean economy described above, as well as factors such as high oil prices, the weakness of the economy in certain parts of the world, and tensions with North Korea, the economic outlook for the financial services sector in Korea in 2007 and for the foreseeable future is uncertain.

New Basel Capital Accord

In June 2006, the Financial Supervisory Service announced that it would implement Basel II in Korea beginning on January 1, 2008. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on market risk and capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk when calculating risk-weighted assets. Our implementation of Basel II may require an increase in our capital requirements, which may require us to either improve our asset quality or raise additional capital. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the Stock Market Division of the Korea Exchange as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	Dec. 31, 2002	June 30, 2003	Dec. 31, 2003	June 30, 2004	Dec. 31, 2004	June 30, 2005	Dec. 30, 2005	June 30, 2006	Dec. 29, 2006
KOSPI	627.55	669.93	810.71	785.79	895.92	1,008.16	1,379.37	1,295.15	1,434.46
(Won)/US$ exchange rates [1]	(Won) 1,186.3	(Won) 1,196.0	(Won) 1,192.0	(Won) 1,156.0	(Won) 1,035.1	(Won) 1,034.5	(Won) 1,010.0	(Won) 948.5	(Won) 930.0
Corporate bond rates [2]	5.8%	5.6%	5.7%	5.0%	3.9%	4.4%	5.7%	5.3%	5.2%
Treasury bond rates [3]	5.1%	4.2%	4.8%	4.2%	3.3%	4.0%	5.1%	4.9%	4.9%

(1) Represents the noon buying rate on the dates indicated.
(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.
(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Finance and Economy of Korea.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Allowance for Credit Losses

We evaluate our credit portfolio for impairment on an ongoing basis. We have established an allowance for credit losses, which is available to absorb probable losses that have been incurred in our credit portfolio as of the balance sheet date. If we believe that additions or changes to the allowance for credit losses are required, then we record provisions for credit losses, which are treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual credit losses, net of recoveries of previously charged-off amounts, are charged directly against the allowance for credit losses.

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We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our credit portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions. We evaluate corporate loans, consumer loans and off-balance sheet credit instruments in different ways, due to their respective characteristics, as follows:

We generally evaluate impaired corporate loans individually, due to the unique characteristics of individual corporate borrowers, and establish an allowance for loan losses for such loans. As described in more detail in Note 1 of our consolidated financial statements, we consider a loan impaired when, after considering risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement, including principal and interest. Once we have identified loans as impaired, we generally value them either based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at a loan s observable market price or the fair value of the collateral if a loan is collateral dependent. If the resulting value is less than the carrying value of the loan, we establish a specific allowance for the difference, which is deemed uncollectible.

We also establish an allowance for loan losses for corporate loans that we do not believe are impaired. This allowance is established for each homogeneous pool of these loans based on our historical loss experience for these types of loans.

We establish an allowance for losses related to leases based on historical loss experience for these types of loans.

We generally evaluate consumer loans and certain smaller balance corporate loans, including mortgages and home equity loans and credit card balances, as individual pools for loan loss reserve purposes due to their homogeneous nature, and establish an allowance for loan losses relating to each pool based on historical loss experience.

We establish an allowance for losses for off-balance sheet credit instruments based on the probability of usage and historical loss experience.

Factors that we consider when establishing reserves for homogeneous pools of corporate and consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

We believe that the accounting estimate related to our allowance for credit losses is a critical accounting policy because: (1) it is highly susceptible to change from period to period because it requires us to make assumptions about future default rates and losses relating to our credit portfolio; and (2) any significant difference between our estimated credit losses (as reflected in our allowance for credit losses) and actual credit losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2006 included a total allowance for credit losses of (Won)2,802 billion as of that date (including allowances of (Won)334 billion with respect to off-balance sheet credit instruments). Our total loan charge-offs, net of recoveries, amounted to (Won)549 billion and we recorded a reversal of provision for credit losses of (Won)100 billion in 2006.

Valuation of Securities and Financial Instruments

We invest in various financial instruments including debt and equity securities, derivatives and investments in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument s effect on our consolidated financial statements.

Trading assets and liabilities: Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading assets and liabilities also include derivatives used for trading purposes as well as those used for other than trading purposes that do not qualify for hedge accounting and foreign exchange spot contracts. Trading positions are carried at fair value and recorded on a trade date basis, with changes in fair value recognized in net trading revenue as they occur.

Debt and marketable equity securities: We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminable period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Available-for-sale securities are reported at fair value. Unrealized gains and losses are excluded from earnings and reported in the accumulated other comprehensive income/(loss), net of tax component of stockholders equity. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of realized loss in earnings. We classify our investments in debt securities as held-to-maturity if we intend, and have the ability, to hold them until maturity. Held-to-maturity securities are reported at amortized cost. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the securities to their fair value.

Nonmarketable or restricted equity securities: Some equity securities do not have readily determinable marketable values or have sales restrictions exceeding one year. We carry such securities at cost, with any other-than-temporary impairment recorded in earnings. The fair values of nonmarketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost or other reference events or valuation performed by qualified independent valuators. The fair values of restricted equity securities are based on the latest market value of the related nonrestricted securities less a restriction discount. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments.

Investments in venture capital activities: Certain of our subsidiaries engage exclusively in venture capital activities. We carry venture capital investments at fair value with net changes in fair value recognized as non-interest income or expense. The fair values of publicly traded securities these subsidiaries hold are generally based on quoted market prices. Securities that these subsidiaries hold that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date we estimate fair value based on investee transactions with unaffiliated parties or based on our review of the investee s financial results and condition. If such information is not readily available, the fair values are based on the latest obtainable net asset value of the investees. Any changes to these assumptions could significantly affect the fair values of these investments.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities and financial instruments using quoted market prices when available, including third party broker quotations. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair values calculated based on pricing and valuation models or discounted cash flow analysis are subject to various assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions relate to discount rates, cash flows and certain modeling techniques, among other things. For certain nonmarketable or restricted securities, we may periodically utilize external valuations performed by qualified independent evaluators.

Factors we consider in determining whether declines in value are other-than-temporary include the length of time and extent to which fair value is less than cost, the status, financial condition and near-term prospects of the issuer, the status of the security, our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and (for domestic securities only) the state of the Korean economy. Any changes in these assumptions could significantly affect the valuation and timing of recognition of an other-than-temporary impairment.

We believe that the accounting estimates related to the fair market value of our various securities is a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether or not any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Goodwill and Other Intangible Assets

We recognized a significant amount of goodwill in connection with our merger with Korea Long Term Credit Bank and our acquisition of Kookmin Credit Card. In addition, we acquired core deposit and credit card relationship intangible assets upon our merger with H&CB, and credit card relationship intangible assets upon our acquisition of Kookmin Credit Card.

Goodwill represents the excess of acquisition cost over the fair value of assets and liabilities acquired in a business combination. We allocated goodwill to the reporting unit level, which we define as an operating segment, or one level below. We do not amortize goodwill. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate that it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. Although the assumptions used are consistent with internal planning, significant management judgment is involved in estimating these variables, which include inherent uncertainties. A discount rate is applied to the cash flow estimates considering our cost of capital rate and specific country and industry risk factors.

We recorded the other intangible assets at their estimated fair values. The core deposit intangible assets reflects the value of the base of demand deposits and savings accounts acquired, which we can expect to maintain for an extended period because of generally stable customer relationships. The fair value of this asset was based principally upon the estimates of: (1) the funding benefits that these deposits provide relative to our alternative funding sources; and (2) the projected run-off of the related customer accounts. The credit card relationship intangible assets reflect the value of the credit card relationships acquired from which we expect to derive future benefits over the estimated life of such relationships. The fair value of this asset was based principally upon the estimates of: (1) the profitability of the acquired accounts; and (2) the projected run-off of the acquired accounts. We will amortize these intangible assets over their estimated useful lives, which range from approximately six to ten years, on an accelerated basis. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangible assets. We

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periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

We believe that the accounting estimates related to the fair values of our acquired goodwill and other intangible assets is a critical accounting policy because: (1) they may be highly susceptible to change from period to period because they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant difference between our estimates and the actual amounts could result in valuation losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill and other intangible assets could fluctuate in the future, based on a variety of factors.

Valuation Allowance for Deferred Tax Assets

As a result of the substantial losses incurred by certain of our subsidiaries, we had an aggregate of (Won)138 billion of net operating loss carry-forwards as of December 31, 2006, which expire from 2007 to 2011. We may be able to use these net operating loss carry-forwards, as well as temporary differences in the amount of tax recorded for tax purposes and accounting purposes, to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then, based on our internal estimates of our future profits, establish a valuation allowance equal to the extent that it is more likely than not that deferred tax assets will not be realized. We record a benefit or expense under the income tax expense/benefit line of our income statement when there is a net change in our total deferred tax assets and liabilities in a period. In 2004, 2005 and 2006, we recorded a valuation allowance for a certain amount of deferred tax assets resulting from net operating loss carry-forwards and land revaluation due to the uncertainty of the amount of our future profitability.

We believe that the estimates related to our establishment of the valuation allowance for deferred tax assets is a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding our future profitability; and (2) any significant difference between our estimates of future profits on any particular date and such estimates of future profits on a different date could result in an income tax expense or benefit which may have a material impact on our net income from period to period. Our assumptions about future profitability require significant judgment and are inherently subjective.

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Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income:

	2004	Year ended December 31, 2005 (in billions of Won, except percentages)	2006	Year ended December 31, 2005/2004 (% change)	2006/2005
Interest and dividend income					
Loans, including fees [1]	(Won) 10,826	(Won) 9,464	(Won) 9,941	(12.6)%	5.0%
Trading securities	156	129	159	(17.3)	23.3
Investment securities	1,004	960	1,217	(4.4)	26.8
Call loans and securities purchased under resale agreements	85	78	60	(8.2)	(23.1)
Deposits	21	27	28	28.6	3.7
Total interest and dividend income	12,092	10,658	11,405	(11.9)	7.0
Interest expense					
Deposits	3,834	3,181	3,408	(17.0)	7.1
Call money	42	40	119	(4.8)	197.5
Other borrowed funds	332	289	354	(13.0)	22.5
Secured borrowings	366	310	389	(15.3)	25.5
Long-term debt	942	937	1,072	(0.5)	14.4
Total interest expense	5,516	4,757	5,342	(13.8)	12.3
Net interest income	(Won) 6,576	(Won) 5,901	(Won) 6,063	(10.3)	2.7
Net interest margin [2]	3.84%	3.53%	3.43%		

(1) Fees primarily include annual fees on credit cards.

(2) The ratio of net interest income to average interest earning assets. See Item 3A. Selected Financial Data Profitability ratios and other data.

Comparison of 2006 to 2005

Interest and dividend income. Interest and dividend income increased 7.0% from (Won)10,658 billion in 2005 to (Won)11,405 billion in 2006, primarily due to a 5.0% increase in interest and fees on loans, which was enhanced by a 26.8% increase in interest and dividends on investment securities. The average balance of our interest earning assets increased 5.6% from (Won)167,225 billion in 2005 to (Won)176,655 billion in 2006, and the average yields on our interest earning assets increased from 6.37% in 2005 to 6.46% in 2006.

The 5.0% increase in interest and fees on loans from (Won)9,464 billion in 2005 to (Won)9,941 billion in 2006 was primarily the result of:

- an increase of 42 basis points in average yields on mortgage and home equity loans from 5.75% in 2005 to 6.17% in 2006, which was enhanced by a 3.4% increase in the average volume of such loans from (Won)58,376 billion in 2005 to (Won)60,373 billion in 2006; and

- a 14.3% increase in the average volume of commercial and industrial loans from (Won)39,031 billion in 2005 to (Won)44,631 billion in 2006, which was enhanced by an increase of 1 basis point in average yields on such loans from 6.03% in 2005 to 6.04% in 2006.

The increase in the average yields for mortgage and home equity loans was primarily a result of a general rise in market interest rates in Korea from 2005 to 2006 as well as our efforts to improve our yields on such loans. The average volume of mortgage and home equity loans increased mainly as the result of higher demand for such loans in Korea as well as our increased marketing efforts with respect to such loan products. The increase in the average volume of commercial and industrial loans reflected our continuing efforts to expand our corporate lending business.

These increases were partially offset by decreases in interest on loans resulting from:

- a 10.0% decrease in the average volume of other consumer loans from (Won)24,506 billion in 2005 to (Won)22,046 billion in 2006, which was partially offset by an increase of 4 basis points in average yields on such loans from 8.17% in 2005 to 8.21% in 2006; and

- a decrease of 198 basis points in average yields on credit card balances, primarily in cash advances and credit card loans, from 16.27% in 2005 to 14.29% in 2006, which was partially offset by a 2.1% increase in the average volume of such loans from (Won)8,369 billion in 2005 to (Won)8,547 billion in 2006.

The decrease in average volume of other consumer loans reflected our continuing efforts, particularly with respect to other consumer loans, to improve the asset quality of our loans rather than increasing the size of our loan portfolio. The decrease in the average yield of our credit card balances reflected a decrease in our customers use of high-interest cash advances, while the average volume for such credit card balances increased primarily a result of our increased marketing efforts to procure new credit card subscribers.

Overall, the average volume of our loans increased 4.7%, from (Won)137,079 in 2005 to (Won)143,457 in 2006, and the average yields on our loans increased 3 basis points, from 6.90% in 2005 to 6.93% in 2006, reflecting the higher interest rate environment.

Our securities portfolio consists primarily of investment securities, of which 89.1% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2006. Interest and dividends on investment securities increased 26.8% from (Won)960 billion in 2005 to (Won)1,217 billion in 2006. This increase was primarily due to a 18.2% increase in the average volume of investment securities from (Won)23,357 billion in 2005 to (Won)27,605 billion in 2006 as a result of our increased purchases of debt securities issued by financial institutions in the first half of 2006. The effect of this increase was enhanced by an increase of 30 basis points in average yields on such investment securities from 4.11% in 2005 to 4.41% in 2006, primarily due to the general rise in market interest rates in Korea.

Our securities portfolio also includes trading securities, of which 94.4% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2006. Interest and dividends on trading securities increased 23.3% from (Won)129 billion in 2005 to (Won)159 billion in 2006. This increase was primarily due to a 93 basis point increase in average yields on such securities from 3.86% in 2005 to 4.79% in 2006, reflecting the general rise in market interest rates in Korea.

Interest Expense. Interest expense increased 12.3% from (Won)4,757 billion in 2005 to (Won)5,342 billion in 2006, primarily due to a 7.1% increase in interest expense on deposits, a 14.4% increase in interest expense on long-term debt, a 25.5% increase in interest expense on secured borrowings, a 197.5% increase in interest expense on call money and a 22.5% increase in interest expense on other borrowed funds. The average balance of our interest bearing liabilities increased 4.4% from (Won)154,384 billion in 2005 to (Won)161,148 billion in 2006, principally as a result of increases in long-term debt, secured borrowings and call money, which was enhanced by a 23 basis point increase in average cost from 3.08% in 2005 to 3.31% in 2006.

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The 7.1% increase in interest expense on deposits from (Won)3,181 billion in 2005 to (Won)3,408 billion in 2006 was primarily the result of:

- a 67.5% increase in the average volume of certificates of deposit from (Won)5,007 billion in 2005 to (Won)8,386 billion in 2006, which was enhanced by an 83 basis point increase in the average interest rate paid on certificates of deposit from 3.69% in 2005 to 4.52% in 2006;

- a 14 basis point increase in the average interest rate paid on savings deposits from 0.57% in 2005 to 0.71% in 2006, which was enhanced by a 8.6% increase in the average volume of such deposits from (Won)38,343 billion in 2005 to (Won)41,652 billion in 2006; and

- a 31 basis point increase in the average interest rate paid on other time deposits from 3.61% in 2005 to 3.92% in 2006, which was partially offset by a 6.4% decrease in the average volume of such deposits from (Won)66,229 billion in 2005 to (Won)62,015 billion in 2006.

The increases in the average interest rates paid on certificates of deposit, savings deposits and other time deposits resulted from the general rise in market interest rates in Korea from 2005 to 2006. The increases in the average volume of certificates of deposit and savings deposits were primarily attributable to our increased focus on marketing such deposits as a cost-effective method of meeting our higher funding requirements. The decrease in the average volume of other time deposits mainly reflected our customers preference for certificates of deposit or investment-related banking products, which offered higher interest rates.

These increases were partially offset by a 19.6% decrease in the average volume of mutual installment deposits from (Won)10,589 billion in 2005 to (Won)8,511 billion in 2006, which in turn was enhanced by a 21 basis point decrease in the average interest rates paid on such mutual installment deposits. The decrease in the average volume of such deposits was principally due to our customers decreased preference for mutual installment deposits relative to investment-related banking products, while the decrease in the average interest rates paid on mutual installment deposits reflected our reduced focus on such deposits as a source of funding.

The 14.4% increase in interest expense on long-term debt from (Won)937 billion in 2005 to (Won)1,072 billion in 2006 was mainly due to an 18.5% increase in the average volume of such debt from (Won)17,114 billion in 2005 to (Won)20,285 billion in 2006, due primarily to our increased funding needs. This was partially offset by a 20 basis point decrease in the average cost of such debt from 5.48% in 2005 to 5.28% in 2006, which was attributable mainly to the maturity of a portion of our previously incurred higher-interest rate long-term debt.

The 25.5% increase in interest expense on secured borrowings from (Won)310 billion in 2005 to (Won)389 billion in 2006 resulted from a 21.3% increase in the average volume of such borrowings from (Won)7,109 billion in 2005 to (Won)8,622 billion in 2006, enhanced by a 15 basis point increase in the average cost of such borrowings from 4.36% in 2005 to 4.51% in 2006. The average volume of our secured borrowings increased due primarily to our increasing use of secured borrowings as a cost-effective way to meet our increased funding needs, while the average interest rate paid on our secured borrowings mainly reflected the general rise in market interest rates in Korea.

The 197.5% increase in interest expense on call money from (Won)40 billion in 2005 to (Won)119 billion in 2006 was mainly due to a 131.9% increase in the average volume of call money from (Won)1,218 billion in 2005 to (Won)2,825 billion in 2006, which was principally the result of our need to address short-term funding gaps in light of our increased funding needs. This increase was enhanced by a 93 basis point increase in the average interest rate paid on such call money from 3.28% in 2005 to 4.21% in 2006, primarily due to the Bank of Korea s increase of call money interest rates.

Other borrowed funds consist primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts. The 22.5% increase in interest expense on other borrowed funds from (Won)289 billion in 2005 to (Won)354 billion in 2006

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resulted mainly from an increase in the average interest rate paid with respect to such borrowings, which was enhanced by an increase in the average volume of such borrowings. The average interest rate paid on short-term borrowings other than borrowings from the Bank of Korea increased 80 basis points from 3.68% in 2005 to 4.48% in 2006, while the average interest rate paid on borrowings from the Bank of Korea increased 26 basis points from 2.04% in 2005 to 2.30% in 2006. Such increases mainly reflected the general rise in market interest rates in Korea. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 1.3% from (Won)7,474 billion in 2005 to (Won)7,574 billion in 2006, which was partially offset by the 4.9% decline of the average volume of borrowings from the Bank of Korea from (Won)687 billion in 2005 to (Won)653 billion in 2006.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin decreased from 3.53% in 2005 to 3.43% in 2006, as the increase in the average volume of interest earning assets outpaced the increase in our net interest income. The average volume of our interest earning assets increased 5.6% from (Won)167,225 billion in 2005 to (Won)176,655 billion in 2006, while net interest income increased 2.7% from (Won)5,901 billion in 2005 to (Won)6,063 billion in 2006. However, the net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, declined from 3.29% in 2005 to 3.15% in 2006. The decline in net interest spread reflected a larger increase in the average cost of our interest bearing liabilities (including as a result of sharp growth in the average volume of certificates of deposit, where the increase in average cost was also relatively large) relative to the increase in the average yield on our interest earning assets (which was slowed by the small increase in average yield on commercial and industrial loans, where the growth in average volume was relatively large).

Comparison of 2005 to 2004

Interest and dividend income. Interest and dividend income decreased 11.9% from (Won)12,092 billion in 2004 to (Won)10,658 billion in 2005, primarily due to a 12.6% decrease in interest and fees on loans. The average balance of our interest earning assets decreased 2.4% from (Won)171,380 billion in 2004 to (Won)167,225 billion in 2005, and the average yields on our interest earning assets declined from 7.06% in 2004 to 6.37% in 2005.

The 12.6% decrease in interest and fees on loans from (Won)10,826 billion in 2004 to (Won)9,464 billion in 2005 was primarily the result of:

- a 30.5% decrease in the average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)12,049 billion in 2004 to (Won)8,369 billion in 2005, which was enhanced by a decrease of 15 basis points in average yields on such loans from 16.42% in 2004 to 16.27% in 2005;

- a 7.9% decrease in the average volume of commercial and industrial loans from (Won)42,369 billion in 2004 to (Won)39,031 billion in 2005, which was enhanced by a decrease of 20 basis points in average yields on such loans from 6.23% in 2004 to 6.03% in 2005;

- a decrease of 71 basis points in average yields on mortgage and home equity loans from 6.46% in 2004 to 5.75% in 2005, which was partially offset by a 4.5% increase in the average volume of such loans from (Won)55,863 billion in 2004 to (Won)58,376 billion in 2005; and

- a 10.2% decrease in the average volume of other consumer loans from (Won)27,287 billion in 2004 to (Won)24,506 billion in 2005, which was partially offset by an increase of 12 basis points in average yields on such loans from 8.05% in 2004 to 8.17% in 2005.

The average volume of our loans (other than mortgage and home equity loans) decreased principally as a result of our efforts to concentrate on improving the asset quality of our loans rather than increasing the size of our loan portfolio, particularly with respect to our small- and medium-sized enterprise loans and our other consumer loans. This decrease was enhanced by a substantial decrease in the average volume of our credit card balances as a result of charge-offs we recorded as part of our continuing efforts to improve the asset quality of our credit card portfolio. These decreases were partially offset by average volume growth in our mortgage and home equity loans, which reflected higher demand for such loans in Korea as well as our increased marketing efforts with respect to such loan products. Our average yield on loans decreased 59 basis points from 7.49% in 2004 to 6.90% in 2005 principally as a result of the general decline in market interest rates in Korea from 2004 to 2005 and, in the case of mortgage and home equity loans, increasing competition among Korean banks to provide such loans.

Our securities portfolio consists primarily of investment securities, of which 92.7% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2005. Interest and dividends on investment securities decreased 4.4% from (Won)1,004 billion in 2004 to (Won)960 billion in 2005. This decrease was primarily due to a 90 basis point decline in average yields on our investment securities from 5.01% in 2004 to 4.11% in 2005, as a result of the general decline in market interest rates in Korea. The effect of this decrease was partially offset by a 16.6% increase in the average volume of our investment securities from (Won)20,030 billion in 2004 to (Won)23,357 billion in 2005 primarily as a result of increased purchases of longer-term debt securities issued by financial institutions.

Our securities portfolio also includes trading securities, of which 94.3% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2005. Interest and dividends on trading securities decreased 17.3% from (Won)156 billion in 2004 to (Won)129 billion in 2005. This decrease was primarily due to a 94 basis point decrease in average yields on such securities from 4.80% in 2004 to 3.86% in 2005, as a result of the general decline in market interest rates in Korea, and was partially offset by a 2.7% increase in the average volume of our trading securities from (Won)3,253 billion in 2004 to (Won)3,342 billion in 2005.

Interest Expense. Interest expense decreased 13.8% from (Won)5,516 billion in 2004 to (Won)4,757 billion in 2005, primarily due to a 17.0% decline in interest expense on deposits, a 15.3% decline in interest expense on secured borrowings and a 13.0% decline in interest expense on other borrowed funds. The average balance of our interest bearing liabilities decreased 3.9% from (Won)160,581 billion in 2004 to (Won)154,384 billion in 2005, principally as a result of decreases in other borrowed funds, long-term borrowings and secured borrowings, which was enhanced by a 36 basis point decline in average cost from 3.44% in 2004 to 3.08% in 2005.

The 17.0% decrease in interest expense on deposits from (Won)3,834 billion in 2004 to (Won)3,181 billion in 2005 was primarily the result of:

- a 37 basis point decline in the average interest rate paid on other time deposits from 3.98% in 2004 to 3.61% in 2005, which was enhanced by a 2.9% decrease in the average volume of such deposits from (Won)68,230 billion in 2004 to (Won)66,229 billion in 2005;

- a 102 basis point decline in the average interest rate paid on mutual installment deposits from 4.63% in 2004 to 3.61% in 2005, which was enhanced by a 12.5% decrease in the average volume of such deposits from (Won)12,105 billion in 2004 to (Won)10,589 billion in 2005;

- a 22 basis point decline in the average interest rate paid on savings deposits from 0.79% in 2004 to 0.57% in 2005, which was enhanced by a 1.8% decrease in the average volume of such deposits from (Won)39,042 billion in 2004 to (Won)38,343 billion in 2005; and

- a 18.0% decrease in the average volume of certificates of deposit from (Won)6,107 billion in 2004 to (Won)5,007 billion in 2005, which was enhanced by a 37 basis point decline in the average interest rate paid on such certificates of deposit from 4.06% in 2004 to 3.69% in 2005.

These declines in the average interest rates paid on deposits resulted from the general decline in market interest rates in Korea from 2004 to 2005, while the decreases in the average volume of such deposits was primarily attributable to increased competition among Korean banks for retail deposits.

The 15.3% decrease in interest expense on secured borrowings from (Won)366 billion in 2004 to (Won)310 billion in 2005 resulted from a decrease in both the average cost and average volume of such borrowings. The average interest rate paid on our secured borrowings decreased 59 basis points from 4.95% in 2004 to 4.36% in 2005, principally as a result of the general decline in market interest rates in Korea. The average volume of our secured borrowings declined 3.9% from (Won)7,400 billion in 2004 to (Won)7,109 billion in 2005 as a result of the liquidation of some of our special purpose entities due to the collection of underlying receivables.

The 13.0% decrease in interest expense on other borrowed funds from (Won)332 billion in 2004 to (Won)289 billion in 2005 resulted mainly from a decrease in the average volume of such borrowings, which was enhanced by a decrease in the average interest rate paid with respect to such borrowings. The average volume of short-term borrowings other than borrowings from the Bank of Korea decreased 8.3% from (Won)8,150 billion in 2004 to (Won)7,474 billion in 2005, while the average volume of borrowings from the Bank of Korea declined 24.6% from (Won)911 billion in 2004 to (Won)687 billion in 2005. Such decreases mainly reflected a decrease in our funding needs as a result of the decline in the size of our loan portfolio. The average interest rate paid on short-term borrowings other than borrowings from the Bank of Korea decreased 12 basis points from 3.80% in 2004 to 3.68% in 2005, while the average interest rate paid on borrowings from the Bank of Korea declined 37 basis points from 2.41% in 2004 to 2.04% in 2005. Such decreases mainly reflected the general decline in market interest rates in Korea.

Net interest margin. Our overall net interest margin decreased from 3.84% in 2004 to 3.53% in 2005. Net interest income decreased 10.3% from (Won)6,576 billion in 2004 to (Won)5,901 billion in 2005. The average volume of our interest earning assets decreased 2.4% from (Won)171,380 billion in 2004 to (Won)167,225 billion in 2005. The decrease in net interest margin reflected the larger decline in our net interest income compared to the decline in the average volume of our interest earning assets, which was primarily due to the larger decline in the average yield on our interest earning assets (driven mainly by a sharp decline in the average volume of higher yielding assets such as credit card receivables and other consumer loans) relative to the decline in the average cost of our interest bearing liabilities, and the resulting decrease in our net interest spread.

Provision for Credit Losses

For a discussion of our loan loss provisioning policy, see Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy.

Comparison of 2006 to 2005

Our provision for credit losses decreased from (Won)613 billion in 2005 to a reversal of provision of (Won)100 billion in 2006, primarily due to significant improvement in the asset quality of our consumer loans and credit card loans, as reflected in a decrease in delinquency rates. These decreases were partially offset by an increase in our provisions in respect of credits other than loans, due mainly to additional provisions relating to unused lines of credit for credit cards.

Our loan charge-offs, net of recoveries, decreased 67.4% from (Won)1,682 billion in 2005 to (Won)549 billion in 2006, which was attributable mainly to (Won)586 billion and (Won)379 billion decreases in net charge-offs of outstanding credit card balances and consumer loans, respectively.

Comparison of 2005 to 2004

Our provision for credit losses decreased from (Won)3,861 billion in 2004 to (Won)613 billion in 2005, as a result of lower provisions in respect of our consumer credit portfolio (including credit card receivables) due to:

- significant improvement in the asset quality of our consumer loans, as reflected in a decrease in delinquency rates; and

- continued decline in our outstanding credit card balances due to significant charge-offs and our efforts to limit the growth of these assets.

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These decreases were partially offset by an increase in our provisions in respect of credits other than loans in 2005 compared to 2004, due mainly to new provisions relating to certain unused lines of credit.

Our loan charge-offs, net of recoveries, decreased 67.6% from (Won)5,186 billion in 2004 to (Won)1,682 billion in 2005. This decrease was attributable mainly to (Won)2,229 billion and (Won)823 billion decreases in net charge-offs of outstanding credit card balances and other consumer loans, respectively.

Allowance for Loan Losses

For information on allowance for loan losses, see Critical Accounting Policies Allowance for Loan Losses and Item 4B. Business Overview Assets and Liabilities Loan Portfolio Allocation of Allowance for Loan Losses.

Corporate Loans. We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy. We also establish an allowance for loan losses for corporate loans that we do not believe are impaired based on our historical loss experience for those types of loans. Smaller balance commercial loans (which are commercial loans of (Won)1 billion or less) are managed on a portfolio basis and evaluated collectively for impairment. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	As of December 31,		
	2004	**2005**	**2006**
Impaired loans as a percentage of total corporate loans	8.6%	7.1%	4.7%
Allowance for loan losses as a percentage of total corporate loans	5.3	4.2	2.9
Allowance for loan losses as a percentage of impaired loans	38.3	45.4	51.7

During 2006, impaired loans and allowance for loan losses, each as a percentage of total corporate loans, decreased, while the level of allowance for loan losses as a percentage of impaired loans increased. Although significant loan growth resulted in a decrease in the overall outstanding balance of both total impaired loans and allowance for loan losses as a percentage of total corporate loans, repayments of relatively higher-quality impaired loans with lower levels of allowances for loan losses led to a worse overall mix of impaired loans, resulting in an increase in allowance for loan losses as a percentage of impaired loans.

During 2005, impaired loans and allowance for loan losses, each as a percentage of total corporate loans, decreased, while the level of allowance for loan losses as a percentage of impaired loans increased. Although significant charge-offs resulted in a decrease in the overall outstanding balance of both total impaired loans and allowance for loan losses as a percentage of total corporate loans, the deterioration in the asset quality of existing impaired loans led to a worse overall mix of impaired loans, resulting in an increase in allowance for loan losses as a percentage of impaired loans.

Consumer Loans. We establish allowances for loan losses for consumer loans (including credit card receivables) based on historical losses as well as delinquencies and changes in underwriting and credit monitoring policies. We also analyze government economic data when considering consumer bankruptcies and delinquency rates as well as the build-up of consumer debt in Korea. The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	As of December 31,		
	2004	**2005**	**2006**
Non-performing loans as a percentage of total consumer loans	1.5%	1.5%	0.7%
Allowance for loan losses as a percentage of total consumer loans	2.3	1.4	0.9
Allowance for loan losses as a percentage of non-performing consumer loans	11.7	9.2	15.7

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During 2006, non-performing consumer loans and allowance for loan loss, each as a percentage of total consumer loans, decreased while the level of allowance for loan losses as a percentage of non-performing consumer loans increased. Although significant loan growth, especially in mortgage and home equity loans, resulted in a decrease in the overall outstanding balance of both total non-performing consumer loans and allowance for loan losses as a percentage of total consumer loans, a deterioration in the asset quality of existing consumer loans led to a worse overall mix of non-performing consumer loans, resulting in an increase in allowance for loan losses as a percentage of non-performing consumer loans.

During 2005, non-performing consumer loans as a percentage of total consumer loans remained relatively constant, while the level of allowance for loan losses as a percentage of both total consumer loans and non-performing consumer loans decreased, as a result of significant charge-offs of non-performing credit card balances and retail loans and the resulting improvement in the overall asset quality of our credit card portfolio, and as the decrease in loan balances resulting from such charge-offs was offset by new mortgage and home equity loans.

Non-Interest Income

The following table shows, for the periods indicated, the components of our non-interest income:

	Year ended December 31,			Year ended December 31,	
	2004	**2005**	**2006**	**2005/2004**	**2006/2005**
	(in billions of Won)			(% change)	
Credit card merchant fees	(Won) 835	(Won) 811	(Won) 884	(2.9)%	9.0%
Other fees and commission income (excluding credit card merchant fees)	934	1,065	1,250	14.0	17.4
Net trading revenue	409	292	263	(28.6)	(9.9)
Trust fees, net	153	146	156	(4.6)	6.8
Net gain on investments	99	98	85	(1.0)	(13.3)
Other non-interest income	370	432	241	16.8	(44.2)
Total non-interest income	(Won) 2,800	(Won) 2,844	(Won) 2,879	1.6	1.2

Comparison of 2006 to 2005

Non-interest income increased 1.2% from (Won)2,844 billion in 2005 to (Won)2,879 billion in 2006. This increase was attributable primarily to:

- a (Won)185 billion increase in other fees and commission income from (Won)1,065 billion in 2005 to (Won)1,250 billion in 2006; and

- a (Won)73 billion increase in credit card merchant fees from (Won)811 billion in 2005 to (Won)884 billion in 2006.

These increases were largely offset by a (Won)191 billion decrease in other non-interest income from (Won)432 billion in 2005 to (Won)241 billion in 2006 and a (Won)29 billion decrease in net trading revenue from (Won)292 billion in 2005 to (Won)263 billion in 2006.

Other fees and commission income consists of commissions received on fund management, credit cards, cash dispenser services and letters of credit, commissions and fees received for brokerage and agency activities, commissions received on remittances and bancassurance fees. The 17.4% increase in other fees and commission income was attributable principally to an increase in commissions received for brokerage and agency activities.

The 9.0% increase in credit card merchant fees was principally a result of increases in credit purchases by our customers reflecting their increased preference for such purchases relative to cash advances.

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Other non-interest income consists mainly of gains on the sale of loans and extinguishment of our debt obligations and insurance premiums. The 44.2% decrease in other non-interest income was attributable principally to lower gains on sales of loans resulting from a decrease of loan sale transactions to third parties.

Net trading revenue consists of net realized and unrealized gains on securities and derivatives in our trading portfolio. The 9.9% decrease in net trading revenue resulted mainly from a decrease of gains on disposal of trading securities.

Comparison of 2005 to 2004

Non-interest income increased 1.6% from (Won)2,800 billion in 2004 to (Won)2,844 billion in 2005. This increase was attributable primarily to:

- a (Won)131 billion increase in other fees and commission income from (Won)934 billion in 2004 to (Won)1,065 billion in 2005; and

- a (Won)62 billion increase in other non-interest income from (Won)370 billion in 2004 to (Won)432 billion in 2005.

These increases were largely offset by a (Won)117 billion decrease in net trading revenue from (Won)409 billion in 2004 to (Won)292 billion in 2005.

The 14.0% increase in other fees and commission income was attributable principally to an increase in commissions received for brokerage and agency activities.

The 16.8% increase in other non-interest income was attributable principally to higher gains on sales of loans to third-party special purpose entities.

The 28.6% decrease in net trading revenue resulted mainly from a decrease of gains on disposal of trading securities.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense:

	Year ended December 31,			Year ended December 31,	
	2004	2005	2006	2005/2004	2006/2005
		(in billions of Won)		(% change)	
Salaries and employee benefits	(Won) 1,702	(Won) 2,193	(Won) 2,054	28.8%	(6.3)%
Other administrative expenses	646	628	770	(2.8)	22.6
Other fees and commissions	537	524	654	(2.4)	24.8
Depreciation and amortization	441	353	324	(20.0)	(8.2)
Credit card fees	332	188	239	(43.4)	27.1
Other non-interest expenses	374	428	481	14.4	12.4
Total non-interest expense	(Won) 4,032	(Won) 4,314	(Won) 4,522	7.0	4.8

Comparison of 2006 to 2005

Non-interest expense increased 4.8% from (Won)4,314 billion in 2005 to (Won)4,522 billion in 2006. This increase was primarily due to a (Won)142 billion increase in other administrative expenses, a (Won)130 billion increase in other fees and commissions, a (Won)53 billion increase in other non-interest expenses and a (Won)51 billion increase in credit card fees, partially offset by a (Won)139 billion decrease in salaries and employee benefits and a (Won)29 billion decrease in depreciation and amortization.

Other administrative expenses include advertising, public relations, sales promotion, telecommunication and data processing expenses. The 22.6% increase in other administrative expenses was primarily due to an increase in advertising and sales promotion expenses.

Other fees and commissions include deposit insurance fees paid to the Korea Deposit Insurance Corporation, contributions to guarantee funds and miscellaneous fees for consulting and other services provided by third party service providers. The 24.8% increase in other fees and commissions was attributable principally to increases in consulting and miscellaneous fees.

Other non-interest expenses include losses in connection with the sale of loans, losses on the disposal of premises and equipment, tax expenses other than income tax, insurance expense, losses on impairment of other assets, provision for other losses, donations and penalties. The 12.4% increase in other non-interest expenses resulted mainly from an increase in provision for other losses.

Credit card fees include fees and commissions paid to our sales agents, expenses related to awarding mileage and bonus points to our credit card customers and fees and commissions paid to our member merchants. The 27.1% increase in credit card fees resulted mainly from increased marketing costs in connection with our credit card operations.

The 6.3% decrease in salaries and employee benefits resulted mainly from a decrease in termination benefits paid in connection with our voluntary early retirement program.

The 8.2% decrease in depreciation and amortization resulted mainly from an increase in disposal of property and equipment.

Comparison of 2005 to 2004

Non-interest expense increased 7.0% from (Won)4,032 billion in 2004 to (Won)4,314 billion in 2005. This increase was primarily due to a (Won)491 billion increase in salaries and employee benefits and a (Won)54 billion increase in other non-interest expenses, partially offset by a (Won)144 billion decrease in credit card fees and a (Won)88 billion decrease in depreciation and amortization.

The 28.8% increase in salaries and employee benefits resulted mainly from a 412.0% increase in termination benefits paid from (Won)50 billion in 2004 to (Won)206 billion in 2005 in connection with a voluntary early retirement program and a 377.3% increase in certain incentive bonuses from (Won)22 billion in 2004 to (Won)105 billion in 2005.

The 14.4% increase in other non-interest expenses resulted mainly from a (Won)90 billion increase in provision for other losses, partially offset by a (Won)57 billion decrease in insurance expense.

The 43.4% decrease in credit card fees resulted mainly from a decrease in payments to third-party collection agencies due to the improvement of the asset quality of our credit card portfolio.

The 20.0% decrease in depreciation and amortization resulted mainly from a decrease in new purchases of property and equipment.

Income Tax Expense

Comparison of 2006 to 2005

Income tax expense increased 29.4% from (Won)1,099 billion in 2005 to (Won)1,423 billion in 2006 as a result of an increase in earnings and a decrease in our deferred income tax assets from 2005 to 2006, as well as due to (Won)190 billion of additional tax imposed on us following a tax audit with respect to prior years. See Item 8A.

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Consolidated Statements and Other Financial Information Legal Proceedings Other Proceedings and Item 3D. Risk Factors Other risks relating to our business We may be assessed additional income taxes in respect of prior years as a result of a tax audit by the National Tax Service of Korea. The statutory tax rate applicable to us was approximately 27.5% in 2005 and 2006. Our effective tax rate was 28.8% in 2005 and 31.5% in 2006.

Comparison of 2005 to 2004

Income tax expense increased 145.3% from (Won)448 billion in 2004 to (Won)1,099 billion in 2005 as a result of an increase in earnings and a decrease in our deferred income tax assets from 2004 to 2005. The statutory tax rate applicable to us was approximately 29.7% in 2004. Our effective tax rate was 30.2% in 2004 and 28.8% in 2005.

Minority Interests

Comparison of 2006 to 2005

Minority interests represent the allocation to minority shareholders of their interests in the gain or loss of our non-wholly owned consolidated subsidiaries. Expense attributable to minority interests was (Won)3 billion in 2005 and (Won)5 billion in 2006. The expense in 2005 and 2006 was due primarily to the deduction of the portion of net income earned by KB Asset Management that was attributable to such interests.

Comparison of 2005 to 2004

Expense attributable to minority interests was (Won)3 billion in both 2004 and 2005. The expense in 2004 and 2005 was due primarily to the deduction of the portion of net income earned by KB Asset Management that was attributable to such interests.

Net Income

As a result of the above, our net income was (Won)3,091 billion in 2006, compared to (Won)2,716 billion in 2005 and (Won)1,032 billion in 2004.

Results under Korean GAAP by Principal Business Segment

We are organized into four major business segments: retail banking, credit card operations, corporate banking and capital markets. The following discussion is based upon our internal management account information, prepared based on Korean GAAP. The following table shows, for the periods indicated, our results of operation by segment based on this information:

	Net income[1] Year ended December 31,			Total revenue Year ended December 31,		
	2004	2005	2006	2004	2005	2006
	(in billions of Won)					
Retail banking	(Won) 724	(Won) 1,320	(Won) 1,231	(Won) 12,225	(Won) 9,169	(Won) 10,372
Credit card operations	(220)	494	491	2,585	2,193	2,256
Corporate banking	(245)	360	345	3,119	4,267	5,265
Capital markets	48	151	12	9,558	7,109	8,967
Other	34	7	477	929	2,797	2,457
Total	(Won) 341	(Won) 2,332	(Won) 2,556	(Won) 28,416	(Won) 25,535	(Won) 29,317

(1) After deduction of income tax allocated proportionately among each segment.

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Retail Banking

Our retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31, 2004	2005	2006	Year ended December 31, 2005/2004	2006/2005
		(in billions of Won)		(% change)	
Interest income	(Won) 11,610	(Won) 8,592	(Won) 9,504	(26.0)%	10.6%
Interest expense	7,487	5,373	6,418	(28.2)	19.4
Provision for credit losses	1,402	372	421	(73.5)	13.2
Non-interest income	615	577	868	(6.2)	50.4
Non-interest expense including depreciation and amortization	2,249	1,604	1,840	(28.7)	14.7
Net income before tax	1,087	1,820	1,693	67.4	(7.0)
Income tax [1]	363	500	462	37.7	(7.6)
Net income	(Won) 724	(Won) 1,320	(Won) 1,231	82.3	(6.7)

(1) Portion of income tax allocated to this segment based on income before tax.

Comparison of 2006 to 2005

Our net income before tax for this segment decreased 7.0% from (Won)1,820 billion in 2005 to (Won)1,693 billion in 2006.

Interest income from our retail banking activities increased 10.6% from (Won)8,592 billion in 2005 to (Won)9,504 billion in 2006. This increase was primarily due to an increase in average interest rates on loans from 6.46% in 2005 to 6.69% in 2006, principally as a result of a general rise in market interest rates. The average volume of retail loans remained relatively stable at (Won) 82,617 billion in 2006 compared to (Won)82,990 billion in 2005.

Our largest and most important funding source is deposits from retail customers, which represent approximately three-quarters of our total deposits. Interest expense in the retail banking segment increased 19.4% from (Won)5,373 billion in 2005 to (Won)6,418 billion in 2006, due primarily to an increase in average interest rates on deposit and savings products from 2.63% in 2005 to 2.85% in 2006.

Provision for credit losses on retail loans increased 13.2% from (Won)372 billion in 2005 to (Won)421 billion in 2006, primarily as a result of an increase by the Financial Supervisory Commission in 2006 in the minimum required provisioning levels applicable under Korean GAAP to loans classified as normal and precautionary.

Non-interest income increased 50.4% from (Won)577 billion in 2005 to (Won)868 billion in 2006, primarily due to an increase in fees derived from sales of insurance products of other institutions and sales of beneficiary certificates, as well as the inter-segment adjustment of fee income between this segment and our other segment resulting from refinements to our data tracking methods in implementing the management policy adopted in 2005 regarding allocations of certain income and expense items among our business segments.

Non-interest expense, which includes depreciation and amortization, increased 14.7% from (Won)1,604 billion in 2005 to (Won)1,840 billion in 2006, primarily due to an increase in labor costs as well as higher marketing costs due to our increased marketing activities with respect to retail lending.

Comparison of 2005 to 2004

Our net income before tax for this segment increased 67.4% from (Won)1,087 billion in 2004 to (Won)1,820 billion in 2005.

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Interest income from our retail banking activities decreased 26.0% from (Won)11,610 billion in 2004 to (Won)8,592 billion in 2005, primarily due to an inter-segment adjustment of interest income between this segment and the corporate banking segment resulting from a change in our management policy regarding certain Won-denominated deposit and savings products and their consequent transfer from this segment to the corporate banking segment in 2005. The effect of this adjustment was enhanced by a decline in average interest rates on mortgage and home equity loans as a result of declines in market interest rates in Korea, which caused interest income from these loans to decrease 8.6% from (Won)5,869 billion in 2004 to (Won)5,365 billion in 2005. The average volume of retail loans remained relatively stable at (Won)82,990 billion in 2005 compared to (Won)83,154 billion in 2004.

Interest expense in the retail banking segment decreased 28.2% from (Won)7,487 billion in 2004 to (Won)5,373 billion in 2005, due primarily to a decline in average interest rates on deposit and savings products from 3.04% in 2004 to 2.63% in 2005. The decrease in interest expense was also attributable in part to an inter-segment transfer of certain Won-denominated deposit and savings products from this segment to the corporate banking segment in 2005, as described above. As a result of these factors, interest expense relating to deposit and savings products declined 43.9% from (Won)3,898 billion in 2004 to (Won)2,185 billion in 2005.

Provision for credit losses on retail loans decreased 73.5% from (Won)1,402 billion in 2004 to (Won)372 billion in 2005, primarily due to an improvement in the overall asset quality of such loans.

Non-interest income decreased 6.2% from (Won)615 billion in 2004 to (Won)577 billion in 2005, primarily due to a decline in miscellaneous fee income from retail banking accounts, which was partially offset by an increase in fees derived from sales of insurance products of other institutions and sales of beneficiary certificates.

Non-interest expense, which includes depreciation and amortization, decreased 28.7% from (Won)2,249 billion in 2004 to (Won)1,604 billion in 2005, primarily due to the reorganization of our branch network to minimize overlapping branches in certain metropolitan areas.

Credit Card Operations

Our credit card segment handles our credit card activities. Prior to its merger into us in September 2003, these activities were managed principally by Kookmin Credit Card, our consolidated subsidiary. Subsequent to the merger, these activities and the related assets and liabilities have been combined with us and are managed by the relevant units of our bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31, (in billions of Won)			Year ended December 31, (% change)	
	2004	2005	2006	2005/2004	2006/2005
Income statement data:					
Interest income	(Won) 1,406	(Won) 2,057	(Won) 1,907	46.3%	(7.3)%
Interest expense	386	296	347	(23.3)	17.2
Provision for credit losses	781	608	388	(22.1)	(36.2)
Non-interest income	1,178	136	348	(88.5)	155.9
Non-interest expense including depreciation and amortization	1,792	608	786	(66.0)	29.3
Net income (loss) before tax [1]	(375)	681	734	N/M	7.8
Income tax [1][2]	(155)	187	243	N/M	29.9
Net income (loss) [1]	(Won) (220)	(Won) 494	(Won) 491	N/M	(0.6)

(1) N/M = not meaningful.
(2) Portion of income tax allocated to this segment based on income before tax.

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Comparison of 2006 to 2005

Our net income before tax for this segment increased 7.8% from (Won)681 billion in 2005 to (Won)734 billion in 2006.

Interest income from our credit card operations decreased 7.3% from (Won)2,057 billion in 2005 to (Won)1,907 billion in 2006. This decrease was primarily due to a decrease in the average volume of our credit card receivables, from (Won)8,635 billion in 2005 to (Won)7,880 billion in 2006.

Interest expense increased 17.2% from (Won)296 billion in 2005 to (Won)347 billion in 2006 due to increased funding costs resulting from higher average interest rates in respect of inter-segment borrowings as a result of a rise in market interest rates.

Provision for credit losses decreased 36.2% from (Won)608 billion in 2005 to (Won)388 billion in 2006. This decrease was primarily due to an improvement in the overall asset quality of our credit card portfolio.

Non-interest income increased 155.9% from (Won)136 billion in 2005 to (Won)348 billion in 2006. This increase resulted principally from further refinements to the 2005 reclassification of interest on credit card loans, fees and commissions, as well as increases in various non-operating income items.

Non-interest expense, which includes depreciation and amortization, increased 29.3% from (Won)608 billion in 2005 to (Won)786 billion in 2006, primarily due to an increase in marketing costs as a result of increased marketing efforts to procure new credit card subscribers.

Comparison of 2005 to 2004

Our income before tax for this segment changed from a net loss of (Won)375 billion in 2004 to a net gain of (Won)681 billion in 2005.

Interest income from our credit card operations increased 46.3% from (Won)1,406 billion in 2004 to (Won)2,057 billion in 2005. This increase was primarily due to a reclassification of interest on credit card loans and credit card installment purchases, merchant fees, and commission on cash advances and credit card installment purchases from commissions under non-interest income in interest income as a result of a change in accounting policy in 2005.

Interest expense decreased 23.3% from (Won)386 billion in 2004 to (Won)296 billion in 2005 due to decreased funding costs resulting from lower average balances of inter-segment borrowings and lower average interest rates in respect of such borrowings as a result of a decline in market interest rates.

Provision for credit losses decreased 22.1% from (Won)781 billion in 2004 to (Won)608 billion in 2005. This decrease was primarily due to an improvement in the overall asset quality of our credit card portfolio.

Non-interest income decreased 88.5% from (Won)1,178 billion in 2004 to (Won)136 billion in 2005. This decrease resulted principally from the aforementioned reclassification of interest on credit card loans, fees and commissions in 2005 as interest income compared to prior periods where such interest, fees and commissions were classified under non-interest income.

Non-interest expense, which includes depreciation and amortization, decreased 66.0% from (Won)1,792 billion in 2004 to (Won)608 billion in 2005, primarily due to a decrease in losses on sales of credit card balances as a result of the lower volume of such sales in 2004 compared to 2005 and a decrease in payments to third-party collection agencies due to the improvement of the assets quality of our credit portfolio.

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Corporate Banking

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in Won and foreign currencies and foreign currency activities. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31, 2004	2005	2006	Year ended December 31, 2005/2004	2006/2005
	(in billions of Won)			(% change)	
Income statement data:					
Interest income	(Won) 2,960	(Won) 4,126	(Won) 4,938	39.4%	19.7%
Interest expense	1,838	2,900	3,858	57.8	33.0
Provision for credit losses	896	376	353	(58.0)	(6.1)
Non-interest income	159	141	327	(11.4)	131.9
Non-interest expense including depreciation and amortization	798	494	549	(38.0)	11.1
Net income (loss) before tax [1]	(413)	497	505	N/M	1.6
Income tax [1][2]	(168)	137	160	N/M	16.8
Net income [1]	(Won) (245)	(Won) 360	(Won) 345	N/M	(4.2)

(1) N/M = not meaningful.
(2) Portion of income tax allocated to this segment based on income before tax.

Comparison of 2006 to 2005

Our net income before tax for this segment increased 1.6% from (Won)497 billion in 2005 to (Won)505 billion in 2006.

Interest income from our corporate banking activities increased 19.7% from (Won)4,126 billion in 2005 to (Won)4,938 billion in 2006. This increase was primarily due to an increase in average interest rates on corporate loans from 6.03% in 2005 to 6.40% in 2006, resulting principally from a general rise in market interest rates. The effect of this increase was enhanced by an increase in the average corporate lending volume.

Interest expense increased 33.0% from (Won)2,900 billion in 2005 to (Won)3,858 billion in 2006. This increase was primarily due to an increase in the average interest rates on inter-segment borrowings in line with the general rise in market interest rates.

Provision for credit losses on commercial loans decreased 6.1% from (Won)376 billion in 2005 to (Won)353 billion in 2006, primarily due to an improvement in the overall asset quality of our commercial loans.

Non-interest income increased 131.9% from (Won)141 billion in 2005 to (Won)327 billion in 2006. This increase was primarily due to the inter-segment adjustment of fee income between this segment and our other segment resulting from refinements to our data tracking methods in implementing the management policy adopted in 2005 regarding allocations of certain income and expense items among our business segments.

Non-interest expense, which includes depreciation and amortization, increased 11.1% from (Won)494 billion in 2005 to (Won)549 billion in 2006, primarily due to an increase in labor costs and other administrative expenses.

Comparison of 2005 to 2004

Our net income before tax for this segment changed from a loss of (Won)413 billion in 2004 to a gain of (Won)497 billion in 2005.

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Interest income from our corporate banking activities increased 39.4% from (Won)2,960 billion in 2004 to (Won)4,126 billion in 2005. This increase was primarily due to the aforementioned inter-segment adjustment of interest income between the retail banking segment and this segment resulting from a change in our management policy regarding certain Won-denominated deposit and savings products and their consequent transfer from the retail banking segment to this segment in 2005. The effect of this adjustment was partially offset by a decrease in average interest rates on corporate loans from 6.26% in 2004 to 6.03% in 2005, principally as a result of the general decline in market interest rates, and a decrease in the average corporate lending volume.

Interest expense increased 57.8% from (Won)1,838 billion in 2004 to (Won)2,900 billion in 2005. This increase was primarily due to the inter-segment transfer of certain Won-denominated deposit and savings products from the retail banking segment to this segment in 2005, as described above. The effect of this increase was partially offset by a decline in the average interest rates on inter-segment borrowings in line with the general decline in market interest rates.

Provision for credit losses on commercial loans decreased 58.0% from (Won)896 billion in 2004 to (Won)376 billion in 2005, primarily due to an improvement in the overall asset quality of our commercial loans.

Non-interest income decreased 11.4% from (Won)159 billion in 2004 to (Won)141 billion in 2005. This decrease was primarily due to a decrease in recoveries of certain interest and fee income from loans that were charged off.

Non-interest expense, which includes depreciation and amortization, decreased 38.0% from (Won)798 billion in 2004 to (Won)494 billion in 2005, primarily due to the reorganization of our branch network to minimize overlapping branches in certain metropolitan areas.

Capital Markets

Our capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2004	2005	2006	2005/2004	2006/2005
	(in billions of Won)			(% change)	
Income statement data:					
Interest income	(Won) 2,417	(Won) 1,872	(Won) 2,739	(22.5)%	46.3%
Interest expense	2,660	1,871	2,838	(29.7)	51.7
Provision for credit losses	(10)			(99.6)	
Non-interest income	7,141	5,237	6,229	(26.7)	18.9
Non-interest expense including depreciation and amortization	6,647	5,029	6,113	(24.3)	21.6
Net income before tax	261	209	17	(20.0)	(91.9)
Income tax [(1)]	213	58	5	(72.8)	(91.4)
Net income	(Won) 48	(Won) 151	(Won) 12	214.6	(92.1)

(1) Portion of income tax allocated to this segment based on income before tax.

Comparison of 2006 to 2005

Our net income before tax for this segment decreased 91.9% from (Won)209 billion in 2005 to (Won)17 billion in 2006.

Interest income increased 46.3% from (Won)1,872 billion in 2005 to (Won)2,739 billion in 2006, primarily due to an increase in average interest rates on investment securities as a result of the general rise in market interest rates, as well as the inter-segment adjustment of interest income between this segment and our other segment resulting from refinements to our data tracking methods in implementing the management policy adopted in 2005 regarding allocations of certain income and expense items among our business segments.

Interest expense increased 51.7% from (Won)1,871 billion in 2005 to (Won)2,838 billion in 2006, due primarily to an increase in interest expense relating to borrowings in both Won and foreign currencies mainly as a result of the general rise in market interest rates as well as the inter-segment adjustment of certain debentures and related funding costs between the other segment and this segment in 2006 resulting from refinements to our data tracking methods as described above.

Non-interest income increased 18.9% from (Won)5,237 billion in 2005 to (Won)6,229 billion in 2006, primarily due to an 11.7% increase in revenues and valuation gains on derivatives from (Won)4,804 billion in 2005 to (Won)5,365 billion in 2006, which resulted mainly from increased transaction volume.

Non-interest expense, which includes depreciation and amortization, increased 21.6% from (Won)5,029 billion in 2005 to (Won)6,113 billion in 2006, primarily due to a 9.4% increase in losses (including valuation losses) on derivatives from (Won)4,672 billion in 2005 to (Won)5,111 billion in 2006, which resulted mainly from increased transaction volume.

Comparison of 2005 to 2004

Our net income before tax for this segment decreased 20.0% from (Won)261 billion in 2004 to (Won)209 billion in 2005.

Interest income decreased 22.5% from (Won)2,417 billion in 2004 to (Won)1,872 billion in 2005, primarily due to an inter-segment adjustment of interest income between this segment and the other segment resulting from a change in our management policy regarding certain debentures and their consequent transfer from this segment to the other segment in 2005. The effect of this adjustment was enhanced by a decline in average interest rates due to the general decline in market interest rates.

Interest expense decreased 29.7% from (Won)2,660 billion in 2004 to (Won)1,871 billion in 2005, due primarily to a decrease of interest expense relating to borrowings in both Won and foreign currencies. This decrease was attributable primarily to the inter-segment transfer of certain debentures and related funding costs from this segment to the other segment in 2005, as described above, as well as the general decline in market interest rates.

Non-interest income decreased 26.7% from (Won)7,141 billion in 2004 to (Won)5,237 billion in 2005, primarily due to a 23.2% decrease in revenues and valuation gains on derivatives from (Won)6,259 billion in 2004 to (Won)4,804 billion in 2005, which resulted mainly from lower transaction volume stemming principally from the continuing appreciation of the Won versus other currencies in 2005.

Non-interest expense, which includes depreciation and amortization, decreased 24.3% from (Won)6,647 billion in 2004 to (Won)5,029 billion in 2005, primarily due to 22,7% decrease in losses (including valuation losses) on derivatives from (Won)6,045 billion in 2004 to (Won)4,672 billion in 2005, which resulted mainly from the lower transaction volume as described above.

Other

Other includes our back office administrative operations, operations of our consolidated subsidiaries (including our guaranteed trust accounts) and other income or expense (including severance payments) that cannot be categorized in other segments. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31, 2004	2005	2006	Year ended December 31, 2005/2004	2006/2005
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 255	(Won) 1,082	(Won) 1,042	324.3%	(3.7)%
Interest expense	212	974	278	359.4	(71.5)
Provision for credit losses	49	16	19	(67.3)	18.7
Non-interest income	674	1,715	1,414	154.5	(17.6)
Non-interest expense including depreciation and amortization	623	1,682	1,594	170.0	(5.2)
Net income (loss) before tax	(Won) 45	(Won) 125	565	177.8	352.0
Income tax [1]	11	118	88	972.7	(25.4)
Net income [2]	(Won) 34	(Won) 7	(Won) 477	(79.4)	6,714.2

(1) Portion of income tax allocated to this segment based on income before tax.
(2) N/M = not meaningful.

Comparison of 2006 to 2005

Our net income before tax for this segment increased 352.0% from (Won)125 billion in 2005 to (Won)565 billion in 2006.

Interest income decreased 3.7% from (Won)1,082 billion in 2005 to (Won)1,042 billion in 2006. This decrease was primarily due to the aforementioned inter-segment adjustment of interest income between this segment and the capital markets segment resulting from refinements to our data tracking methods in implementing the management policy adopted in 2005 regarding allocations of certain income and expense items among our business segments.

Interest expense decreased 71.5% from (Won)974 billion in 2005 to (Won)278 billion in 2006 primarily due to the aforementioned inter-segment adjustment of certain debentures and related funding costs between this segment and the capital markets segment in 2006 resulting from refinements to our data tracking methods as described above.

Non-interest income decreased 17.6% from (Won)1,715 billion in 2005 to (Won)1,414 billion in 2006 primarily due to the aforementioned inter-segment adjustment of fee income between this segment and the corporate and retail banking segments resulting from refinements to our data tracking methods as described above.

Non-interest expense, which includes depreciation and amortization, decreased 5.2% from (Won)1,682 billion in 2005 to (Won)1,594 billion in 2006, primarily due to a decrease in miscellaneous expenses associated with our voluntary early retirement program.

Comparison of 2005 to 2004

Our net income before tax for this segment increased 177.8% from (Won)45 billion in 2004 to (Won)125 billion in 2005.

Interest income increased 324.3% from (Won)255 billion in 2004 to (Won)1,082 billion in 2005. This increase was primarily due the aforementioned inter-segment adjustment of interest income between the capital markets

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segment and this segment resulting from a change in our management policy regarding certain debentures and their consequent transfer from the capital markets segment to this segment in 2005.

Interest expense increased 359.4% from (Won)212 billion in 2004 to (Won)974 billion in 2005 primarily due to the inter-segment transfer of certain debentures and related funding costs from the capital markets segment to this segment in 2005, as described above.

Provision for credit losses decreased 67.3% from (Won)49 billion in 2004 to (Won)16 billion in 2005 primarily due to an improvement in the overall asset quality of our loans made by our overseas branches and subsidiaries.

Non-interest income increased 154.5% from (Won)674 billion in 2004 to (Won)1,715 billion in 2005 primarily due to an increase in fee income received from ATM and electronic banking transactions.

Non-interest expense, which includes depreciation and amortization, increased 170.0% from (Won)623 billion in 2004 to (Won)1,682 billion in 2005, primarily due to an increase in termination benefits paid in connection with a voluntary early retirement program and an increase in administrative expenses as a result of the increase in the average volume of debentures in this segment due to the inter-segment transfer described above.

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Item 5B. ***Liquidity and Capital Resources***
Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			% Change	
	2004	2005	2006	2005/2004	2006/2005
	(in billions of Won)				
Cash and cash equivalents	(Won) 2,818	(Won) 3,086	(Won) 3,775	9.5%	22.3%
Restricted cash	1,822	2,259	3,277	24.0	45.1
Interest-bearing deposits in other banks	597	515	423	(13.7)	(17.9)
Call loans and securities purchased under resale agreements	2,993	1,716	1,738	(42.7)	1.3
Trading assets	6,096	4,754	3,744	(22.0)	(21.2)
Investments [(1)]	23,095	25,372	25,348	9.9	(0.1)
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	38,427	39,636	48,183	3.1	21.6
Construction	4,459	5,025	6,504	12.7	29.4
Lease financing					
Other commercial	771	1,496	1,409	94.0	(5.8)
Total commercial	43,657	46,157	56,096	5.7	21.5
Consumer:					
Credit cards	9,421	8,369	8,955	(11.2)	7.0
Mortgage and home equity	57,965	59,143	63,982	2.0	8.2
Other consumer	25,963	23,114	21,589	(11.0)	(6.6)
Total consumer	93,349	90,626	94,526	(2.9)	4.3
Total domestic	137,006	136,783	150,622	(0.2)	10.1
Foreign:					
Commercial and industrial	1,118	1,229	781	9.9	(36.5)
Total foreign	1,118	1,229	781	9.9	(36.5)
Deferred origination costs	131	139	281	6.1	102.2
Less allowance for loan losses	(4,461)	(3,212)	(2,468)	(28.0)	(23.2)
Total loans	133,794	134,939	149,216	0.9	10.6
Due from customers on acceptances	743	627	620	(15.6)	(1.1)
Premises and equipment, net	1,637	1,516	1,612	(7.4)	6.3
Accrued interest and dividends receivable	871	1,060	802	21.7	(24.3)
Security deposits	1,285	1,185	1,190	(7.8)	0.4
Goodwill and other intangible assets	730	611	579	(16.3)	(5.2)
Other assets	1,055	868	654	(17.7)	(24.7)
Total assets	(Won) 177,536	(Won) 178,508	(Won) 192,978	0.5	8.1

[(1)] Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

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Comparison of 2006 to 2005

Our assets increased 8.1% from (Won)178,508 billion as of December 31, 2005 to (Won)192,978 billion as of December 31, 2006, as increases in commercial loans, mortgage and home equity loans and restricted cash were partially offset by decreases in other consumer loans and trading assets.

Our loans (net of loan loss allowances) increased 10.6% from (Won)134,939 billion as of December 31, 2005 to (Won)149,216 billion as of December 31, 2006.

Commercial loans increased 21.5% from (Won)46,157 billion as of December 31, 2005 to (Won)56,096 billion as of December 31, 2006. Mortgage and home equity loans increased 8.2% from (Won)59,143 billion as of December 31, 2005 to (Won)63,982 billion as of December 31, 2006. Restricted cash increased 45.1% from (Won)2,259 billion as of December 31, 2005 to (Won)3,277 billion as of December 31, 2006.

These increases were partially offset by a 6.6% decrease in other consumer loans from (Won)23,114 billion as of December 31, 2005 to (Won)21,589 billion as of December 31, 2006 and a 21.2% decrease in trading assets from (Won)4,754 billion as of December 31, 2005 to (Won)3,744 billion as of December 31, 2006.

Comparison of 2005 to 2004

Our assets increased 0.5% from (Won)177,536 billion as of December 31, 2004 to (Won)178,508 billion as of December 31, 2005, as increases in investments, commercial loans and mortgage and home equity loans were largely offset by decreases in credit cards and other consumer loans.

Our loans (net of loan loss allowances) increased 0.9% from (Won)133,794 billion as of December 31, 2004 to (Won)134,939 billion as of December 31, 2005.

Commercial loans increased 5.7% from (Won)43,657 billion as of December 31, 2004 to (Won)46,157 billion as of December 31, 2005. Investments increased 9.9% from (Won)23,095 billion as of December 31, 2004 to (Won)25,372 billion as of December 31, 2005. Mortgage and home equity loans increased 2.0% from (Won)57,965 billion as of December 31, 2004 to (Won)59,143 billion as of December 31, 2005.

These increases were largely offset by an 11.0% decrease in other consumer loans from (Won)25,963 billion as of December 31, 2004 to (Won)23,114 billion as of December 31, 2005 and an 11.2% decrease in credit card balances from (Won)9,421 billion as of December 31, 2004 to (Won)8,369 billion as of December 31, 2005.

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Liabilities and Stockholders Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our stockholders equity:

	As of December 31,			% Change	
	2004	2005	2006	2005/2004	2006/2005
	(in billions of Won)				
Deposits					
Interest bearing	(Won) 123,203	(Won) 121,787	(Won) 125,195	(1.1)%	2.8%
Non-interest bearing	3,017	3,912	4,345	29.7	11.1
Call money	652	1,253	168	92.3	(86.6)
Trading liabilities	2,297	1,078	1,223	(53.1)	13.5
Acceptances outstanding	743	627	620	(15.6)	(1.1)
Other borrowed funds	9,514	6,118	10,627	(35.7)	73.7
Accrued interest payable					