KOOKMIN BANK
Form 6-K
March 14, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2007

Kookmin Bank

(Translation of registrant s name into English)

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

(Address of principal executive office)

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

Form 20-F X Form 40-F ______

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

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

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

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

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

Yes ______ No X

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

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

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

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

Exhibit 99.1_ Non-Consolidated Audit Report for FY 2006

Exhibit 99.2_Consolidated Operating Results for FY 2006

SIGNATURES

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

Kookmin Bank
(Registrant)

Date: March 14, 2007

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

Exhibit 99.1

KOOKMIN BANK

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

Independent Auditors Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of Kookmin Bank:

We have audited the accompanying non-consolidated balance sheets of Kookmin Bank (the Bank) as of December 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

March 2, 2007

<u>Notice to Readers</u>

This report is effective as of March 2, 2007, the auditors report date. Certain subsequent events or circumstances may have occurred between the auditors report date and the time the auditors report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors report.

KOOKMIN BANK

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

(Continued)

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

(Continued)

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. GENERAL:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-consolidated Financial Statement Presentation

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

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

Interest Income Recognition

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

Classification of Securities

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

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

Valuation of Securities

(1) Valuation of Trading Securities

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

(2) Valuation of Available-for-sale Securities

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

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

(3) Valuation of Held-to-maturity Securities

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

(4) Valuation of Securities Accounted for using the Equity Method

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

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

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

(5) Reversal of Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities

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

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

(6) Reclassification of Securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in capital adjustment as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in capital adjustments and be amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face

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value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

Transfer of Securities

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

Allowance for Possible Losses on Credits

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

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

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

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

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

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

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

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

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

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

Restructuring of Loans

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

Deferred Loan Origination Fees and Costs

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

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Related Depreciation

Tangible assets included in fixed assets are recorded at cost or production cost including incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

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

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

Intangible Assets and Related Amortization

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

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

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

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the latest auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations. In addition, the difference between the selling price and book value is recorded as a disposition gain or loss.

Recognition of Impairment of Assets

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

Amortization of Discounts (Premiums) on Debentures

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

Bonds under Resale or Repurchase Agreements

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

Contingent Liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank is recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation. In addition, as some or all expenditures required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as separate assets in the balance sheet and related income may be offset against expense in the income statement.

Accrued Severance Benefits

Employees and directors and temporary employees with at least one year of service as of December 31, 2006 are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign are included in other liabilities.

The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Kyobo Life Insurance Co., Ltd and others. Withdrawal of these deposits is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

Accounting for Derivative Instruments

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

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

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

National Housing Fund

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

Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank account are recorded as due from trust accounts of the bank accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

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

Income Tax Expense

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

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (?929.60 and ?1,013.00 to US$ 1.00 at December 31, 2006 and 2005, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable based on SKAS Act 92. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No. 17 (Provisions, Contingent Liabilities and Contingent Assets) (SKAS No. 11 and No. 14 excluded) as of or before December 31, 2005. SKAS No. 18 (Interests in Joint Ventures), No. 19 (Lease) and No. 20 (Related Party Disclosures) have been adopted since January 1, 2006.

Reclassification

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

3. CASH AND DUE FROM BANKS:

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

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

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

Financial institution	Interest (%)	2006	2005
Due from banks in Won:			
BOK		(Won) 3,195,224	(Won) 2,189,339
Citibank Korea Inc. and others	0.00~2.20	9,377	302,873
Good Morning Shinhan Securities Co., Ltd and others	0.00~0.30	6,006	3,383
		(Won) 3,210,607	(Won) 2,495,595
Due from banks in foreign currencies:			
BOK		(Won) 75,026	(Won) 46,501
JP Morgan Chase Bank, N.A and others	0.00~5.37	87,235	78,136
Qingdao International and others	5.47~5.81	318,388	413,304
		(Won) 480,649	(Won) 537,941

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

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

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

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

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

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

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

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

4. SECURITIES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Held-to-maturity securities:

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

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

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

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

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

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

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

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

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

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

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

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

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

(*1) KLB Securities Co., Ltd., Jooeun Industrial Co., Ltd., Kookmin Bank Singapore Ltd., Kookmin Finance Asia, Ltd. and Pacific IT Investment Partnership are all in the process of liquidation as of December 31, 2006.

(*2) The Bank may exercise its voting right at the board meeting or at an equally significant decision making body of the investee.

(*3) The Bank has significant influence in electing the board member who may participate in the decision making process relating to the financial and business policy of the investee.

(*4) The liquidation of KICO No. 2 Venture Investment Partnership and KICO No. 3 Venture Investment Partnership has been finalized in the current fiscal year

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

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

367,275	49,626	(12,406)	89,570	16,669	(1,582)	509,152

	Book value before valuation	Increase (Decrease)	Dividend	Foreign currency translation gain (loss)	Equity gain (loss) on investment	Capital adjustments	Retained earnings	Book value after valuation
Foreign stocks								
Kookmin Bank Singapore Ltd.	(Won) 1,759	(Won)	(Won)	(Won) (145)	(Won)	(Won)	(Won)	(Won) 1,614
Kookmin Finance Asia Ltd. (HK)	246			(20)				226
Kookmin Bank Int'l Ltd. (London)	50,523			2,237	4,262	(526)		56,496
Kookmin Bank Hong Kong Ltd.	69,958			(5,760)	8,044	(112)		72,130
Sorak Financial Holdings PTE Ltd.	82,401		(6,009)	(438)	7,065	4,280		87,299
	204,887		(6,009)	(4,126)	19,371	3,642		217,765
Equity Securities								
KICO No. 2 Venture Investment Partnership	130	(93)			(37)			
KICO No. 3 Venture Investment Partnership	147	(117)			(30)			
Pacific IT Investment Partnership	4,950	(1,496)			(1,496)			1,958
NPC02-4 Kookmin Venture Fund	12,128	(3,000)	(2,129)		1,263	(58)		8,204
KB06-1 Venture Investment Partnership		2,500			(47)			2,453
	17,355	(2,206)	(2,129)		(347)	(58)		12,615
	(Won) 589,517	(Won) 47,420	(Won) (20,544)	(Won) (4,126)	(Won) 108,594	(Won) 20,253	(Won) (1,582)	(Won) 739,532

(*1) Differences amounting to (Won)1,128 million between the purchase price and the Bank s proportionate ownership of the net book value of KB Credit Information resulting from an additional purchase of 342,844 shares in October 2004 are credited to gain on valuation of securities accounted for using the equity method equally for five years. The Bank credited (Won)226 million to current operation for the year ended December 31, 2006 and the balance was (Won)620 million as of December 31, 2006.

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

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

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

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

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

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

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

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

	Beginning	Increase (Decrease)	Disposal	Ending
Gain (loss) on valuation of available-for-sale securities:				