KEB

Smart & Profitable Growth

ANNUAL REPORT 2005

KOREA EXCHANGE BANK

Contents

Profile

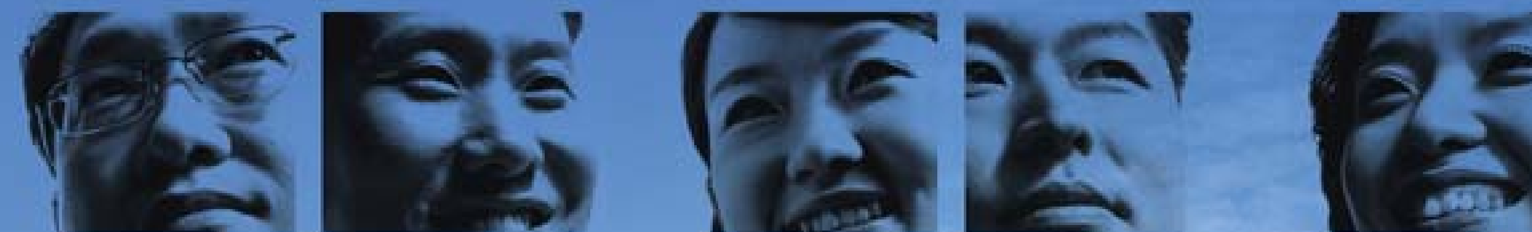
Established in 1967 as a government-owned banking institution specializing in foreign exchange and international trade financing, Korea Exchange Bank (KEB) has developed a dominant position in these fields. KEB was privatized in 1989, and has since continued to solidify its standing as one of the country's premiere commercial banks. Today, we are the Korea's leading international bank with a demonstrated track record of corporate finance expertise.

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

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

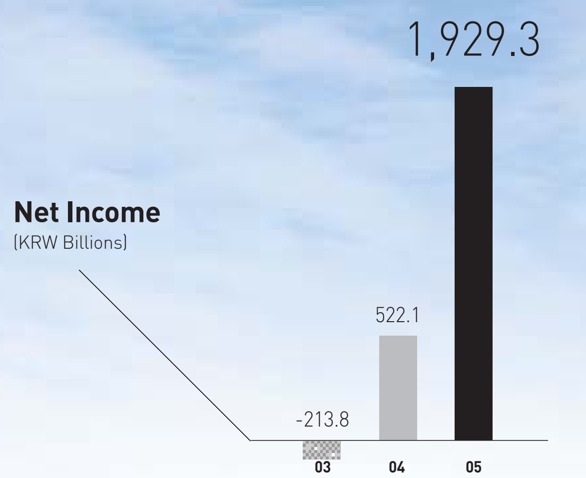
In 2005, KEB has advanced one step further. KEB proved itself to be a healthy and strong institution, with profitability and capital adequacy at the highest levels in our history. Portfolio quality is in the best shape in our history. By intensifying our unique franchise strengths and our emphasis on the quality of our business, KEB will continue "Smart & Profitable" growth.

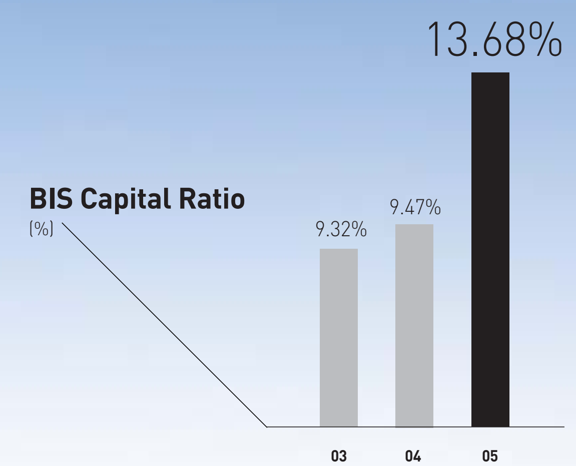
Beyond our Numbers

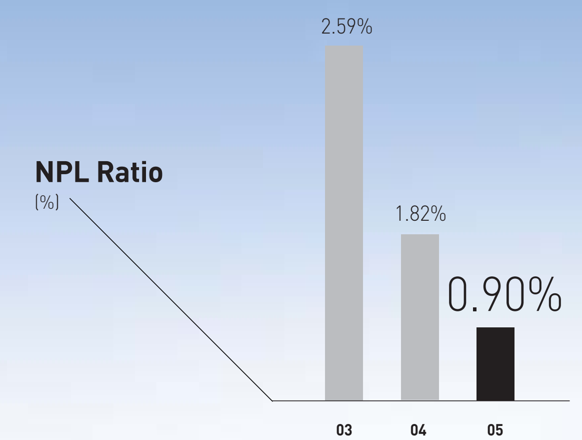


Net Income Exceeding

(KRW)







Financial Highlights

(In Billions of Korean Won, %)

	2005-12	2004-12	Y o Y
Balance Sheet			
Total Asset	72,719.8	67,167.7	+8.3%
Total Credit	43,475.5	41,529.0	+4.7%
Corporate	27,463.7	26,598.1	+3.3%
Household	13,598.8	12,156.4	+11.9%
Credit Card	2,413.0	2,774.5	△13.0%
Substandard & Below Ratio	0.90%	1.82%	△0.92%p
Delinquency Ratio	0.93%	1.78%	△0.85%p
Total Deposit	44,245.6	43,765.6	+1.1%
Total Shareholders' Equity	5,657.7	2,929.4	+93.1%
Paid-In Capital	3,224.5	3,224.5	-
BIS Capital Ratio	13.68%	9.47%	+4.21%p
(Tier 1 Ratio)	9.65%	5.41%	+4.24%p
Income Statement			
Net Interest Margin	3.23%	2.41%	+0.82%p
Income Before Provision	1,858.5	1,445.1	+28.6%
Net Income	1,929.3	522.1	+269.5%
Return On Asset (ROA)	3.05%	0.81%	+2.24%p
Return On Equity (ROE)	43.97%	19.43%	+24.54%p

Distinguished Shareholders,

By almost any measure, the performance of your bank this year was excellent. Korea Exchange Bank's performance in 2005 built on strong momentum from its 2004 turnaround to produce a record KRW 1.9 trillion in net income. Moreover, key measures of capital strength and credit quality were also at record levels, the best among Korean banks, and the best in KEB's history.

But the KEB story is more than simply numbers. It is one of loyalty, quality and pride: Loyalty of clients, quality of staff and pride in performance. Through the 1990's, KEB was Korea's leading private sector bank. The bank boasted an extensive blue-chip corporate client base coupled with a broad network of vigorous SME clients, an upscale retail banking business, the first credit card in Korea, the largest international branch network and leading market shares in foreign exchange and trade finance.

The Asian financial crisis was a considerable set-back, not only to KEB but to the Korean financial sector as a whole. These were difficult times and in the midst of an IMF rescue, 19 major banks either received government bailouts or were consolidated down to the six major competitors that KEB faces today.

But KEB was unique in that its sophistication helped the bank to attract foreign capital sufficient to replenish its financial strength and undertake the reorganization and structural transformation that has restored the bank to the financial and operating strength it enjoys today.

Throughout the restructuring, the KEB staff never relinquished their pride in the bank. The KEB clients - retail, corporate and card - never relinquished their loyalty to the bank. And the quality of the KEB staff - experienced, multi-lingual and hard-working - never faltered. That quality is more than evident today. KEB has returned to the leadership position it enjoyed historically. As we like to say within our bank, "We are not the biggest, but the best."

This year I have had the opportunity to visit many of our branch staff throughout Korea and internationally, to meet with many corporate and private clients, as well as represent KEB at key supranational meetings. The feedback has been quite encouraging. KEB's return to strength has not gone unnoticed.

There are many examples of KEB leadership beyond its core competencies in international banking, foreign exchange, trade and corporate finance. In 2005, as the leading creditor of Hynix Semiconductor, KEB orchestrated the largest and most successful corporate financial restructuring ever in Asia. In electronic settlement, KEB helped inaugurate the Korean launch of CLS Bank and achieved an incredible 90% market share. In corporate social responsibility, KEB set up the KEB Foundation, the first-ever charitable foundation to be established by a Korean financial institution. The KEB Foundation is dedicated to charitable giving and volunteer activity as a means to help those less fortunate in our society. And our foundation is committed to conduct its affairs in a professional, transparent and ethical manner that will serve as a model for others to follow.

We have executed this turnaround and restored our competitiveness so that the bank and the staff could face an uncertain future with confidence and from a position of strength.

That future is now becoming clarified. At the time of this report, we learned that the foreign capital of KEB, represented by Lone Star Funds and Commerzbank, intends to sell their shareholdings, and that Kookmin Bank had been selected as the buyer. This is a difficult outcome for KEB staff who are proud of their independent heritage and the successful turnaround they have achieved. However, a merger between KEB and Kookmin Bank, unlike other mergers in Korea, would be a combination of two strong banks with complementary strengths. Properly executed, it could produce a Korean bank of scale and sophistication on a par with the world's leading banks.

Your bank's laudable performance in 2005 is result of a combination of the leadership of KEB of the past and the strengths of KEB of today. It is a potent combination that, when coupled with the strengths of Kookmin Bank could produce and even more successful bank... not only the biggest and the best in Korea, but one of the world's leading global financial institutions.

As shareholders, I thank you for your loyalty and support. To the men and women of KEB, I extend my sincere appreciation for the dedication and effort that made possible our record performance this year. As your Chairman, I have enjoyed the loyalty and respect of the KEB staff, and I take great pride in their accomplishment.

Robert E. Fallon
Chairman

Dear Shareholders,

It is my great honor to report to you on the progress your bank has made during 2005 to improve our business performance, strengthen our competitive position, and build a sound and healthy institution.
The men and women of KEB delivered a very strong performance in 2005. We enter 2006 with the best asset quality in our history, with the best capital levels in our history, and with the highest profitability in our history.

The bank delivered record net income of over W1.9 trillion. We achieved both of our income goals: the continuous improvement of our ongoing operating results, and the realization of significant gains through the monetization of our large portfolio of special and non-performing assets.
With this strong financial performance we accelerated the restoration of our capital base, achieving a total BIS ratio of 13.68%, our strongest level ever and the strongest of the major Korean banks. We eliminated a key competitive disadvantage that has limited the bank's business prospects and growth for most of the past decade.
Through disciplined business execution in an improving market, we dramatically improved the quality of our credit portfolio, with Non-Performing Loans at just 0.90%. This again represents the best level in our history and the lowest level among Korean banks. New delinquency formation was down more than 1.0% as we left 2005 versus 2004 levels. Our credit card portfolio is now healthy.

Our bank is more profitable, less risky, and strongly capitalized. The international rating agencies have responded with upgrades to our credit and financial strength ratings. We've shown the success of our clear strategy to be "not the biggest, but the best". I congratulate KEB's hardworking and creative staff for these accomplishments, and I thank all of KEB's shareholders for your continued support.

Investing in our capability

With our strong performance and financial health restored, KEB invested in improving our business capability.
We completed the implementation of our "Next Generation Banking System" and other IT upgrades to improve reliability, deliver productivity for our staff, and speed our ability to introduce new products.
We dramatically upgraded our branch network with the most ambitious branch renovation program in our history, affecting more than 80 branches, some of which had not been upgraded since the early 1990s. We opened and relocated 15 branches and 5 new Card Centers in new market areas with promising growth prospects. More will come in 2006. Our new "marketing layout" very effectively provides the proper environment for today's business model... significantly expanded emphasis on customer consultation and advisory instead of traditional transaction processing.

As each of our business units focuses on the specific customer segments where KEB can outperform, we are committing the resources to develop new products and business tools so our staff can win. In our Retail Bank, we invested in new Wealth Management Centers for our Private Banking business; we introduced our new Wealth Management System, a comprehensive financial planning and advisory tool to raise the expertise and effectiveness of our bankers in advising their clients; we established a new Investment Products team to ensure that KEB can offer the best performing products to our customers from which ever fund manager we choose.

Investing in our staff

KEB also invested in our staff. We have increased our training, more than doubling the level of 2004, and extended the training to our full-time teller staff. We completely renovated our company training center – including classrooms, teaching equipment, living and recreational facilities – as part of our commitment to the ongoing development of our staff. Newly named the "KEB Rose Academy", the facility includes a fully functional "model branch" to provide a real-life training environment.

We are hiring again – more than 150 people in 2005 – so that we can ensure a flow of great new talent into the company and reward our best-performing contract staff. KEB's "Open Hiring" approach – focused on hiring the best, most talented candidates regardless of educational pedigree – sparked a revolutionary trend in our society. We had more than 10,000 applicants for our jobs. For KEB it was simply an extension of our philosophy to create a strong, merit-based environment for the better development of our bank.

And we improved the compensation system for our staff. Importantly, in the 2005 Collective Bargaining the bank restored the welfare pension that the staff sacrificed several years ago and which was a key missing element for our staff compared to our peers. Earlier in the year the bank instituted a very unique deferred bonus scheme for all staff – the "KEB Rose Bonus" – with the value linked to the financial performance of the bank and KEB's share price.
Our staff are benefiting from their hard work and the improvement in the bank's performance.

Investing in our communities

We are proud of the leadership KEB has shown in our community service and volunteerism. Each of our marketing regions has adopted worthy local community charities or causes to support on an ongoing basis. In addition to the bank's monetary contributions, the staff contributes their time and capabilities to help those in need in the communities where we do business. These efforts are good for our communities, good for our public reputation, and good for our pride in ourselves and KEB.

In December 2005, we established the KEB Foundation, the first charitable foundation of its kind in the Korean banking industry. With a Board of Directors consisting of outstanding leaders in our society, the KEB Foundation will ensure that our spirit of giving has a permanent focus and source of funding.
KEB will continue to be a leader in social responsibility.

The path forward

We will build on the strong momentum of the past year, and plan to once again deliver more than 1 trillion won in net income in 2006. Our competitors are strong and challenging us every day and every transaction, but KEB has no shortage of opportunities for continued improvement. With our financial health and capital restored, our focus is on achieving "Smart & Profitable Growth".

The key test for our businesses will be to become much more **customer-focused.** In each of our Banks – Global Corporate, Retail, and Card – we have strong, defendable, and profitable positions. We will drive our customer segmentation efforts so that we deliver the **"right products to the right customers".**
With better customer-focused marketing strategies and product offerings, we will work to raise our **business promotion excellence.** Improvements in training, sales processes, and tools – along with continuous elimination of administrative work – will allow our branch network to focus more exclusively on marketing and advising our customers.
No company can ever lose sight of **productivity and efficiency,** and KEB will be diligent both in the use of our capital and use of our people. We will maintain our cost discipline, and we will improve our ability to allocate capital to the best opportunities.
To continue to create a better environment for our staff to perform their best, we will continue to focus on high standards of **compliance and ethics,** and expand the implementation of our **global standard HR practices.**

We face uncertainty in the future change of our major shareholder, but that also brings the prospect of clarity and stability in the bank's ownership structure. The men and women of KEB are focused on our performance and capability, and we are proud that our efforts have again made us an attractive banking franchise.
We will make continued efforts to meet our shareholders' expectations. As your CEO, I am confident we can deliver another year of good performance and profitability in 2006. I thank you for your continued support, and I wish happiness and prosperity for you and your families.

Richard F. Wacker
President & CEO

REVIEW OF OPERATIONS

SMART & PROFITABLE GROWTH

KEB is committed to achieving smart and profitable growth in all of our operations. We demonstrated this last year by playing to our F/X and trade finance strengths in Global Corporate Bank operations, by increasing the capabilities of our Retail Bank in affluent banking, and by putting our Card Bank on a strong and profitable footing.

PROVEN ADVANTAGE

We tailor our services in the Global Corporate Bank to the unique requirements of every client, large or small. We also strive to leverage KEB's proven advantage in foreign exchange, trade finance and global branch network to remain a step ahead of our competitors.

PARK, JONG LIM_ Senior Manager, Trade & Services Division

Global Corporate Bank(GCB)

Overview

The Global Corporate Bank (GCB) is one of KEB's three main businesses, along with the Retail Bank and Card Bank. Comprising six client channels and product centers, GCB handles an extensive range of KEB's core banking services and products.

KEB's Corporate Group is dedicated to serving the needs of small & medium-sized enterprises (SMEs), the largest beneficiaries of KEB's lending activities. The World Corporate Group and Large Corporate Support Department are responsible for large corporate customers both domestic and our multi-national corporate customers. The Global Products Department handles the development and management of products and services relating to foreign exchange and trade finance as well as e-business. The Global Markets Department is tasked with foreign exchange trading, securities trading, derivatives financial products, custody, investment banking, and foreign currencies settlements, etc. Lastly, the International Department manages the activities of KEB's overseas network.

SME Business

In 2005, KEB managed to expand its loan support to Korea's small & medium-sized enterprises (SMEs), a traditional core customer segment.

The bank's Won currency loans extended to SMEs stood at 12.9 trillion won as of year-end 2005, representing an increase of 8.2% YoY from 11.9 trillion won. As a result, the weighting of SMEs in the bank's total Won currency loans increased from 41.1% to 41.3% YoY.

Through clear customer segmentation in SME lending operations, the bank utilizes best practices relying on its proven advantage in the export & import business. KEB's "Yes Best Partner Loan" and "KEB Prime Loan" program of targeting export/import-oriented and high-quality SME clients contributed significantly to our "quantity and quality" approach toward this key borrower category.

Large Corporate Business

Loan demand from the Large Corporate borrower group has remained relatively flat in recent years as direct access to global capital markets has reduced the reliance of those customers on bank financing. Nevertheless, KEB extended 2.6 trillion won of Won currency loans in 2005, up 12.7% from 2.3 trillion won in 2004. The weighting of Large Corporate Won currency loans increased 0.2%p YoY to 8.8% as of year-end 2005.

Having resolved our legacy burden of non-performing loans extended to major conglomerates prior to the Asian financial crisis, KEB has rebuilt its Large Corporate lending portfolio via strategies that emphasize balance, profitability and customer-responsiveness. Beyond lending, KEB has strengthened our role as customized solution provider for global corporations, offering a diverse range of financial services from cash management, derivative-related products, structured financing, securities services, and of course our trade-related solutions.

F/X & Trade Finance

With the most extensive global presence among Korean banks as well as a continuous rollout of strategically targeted F/X products and promotional campaigns throughout the year, KEB maintained its unrivalled lead in the areas of foreign exchange and trade finance in 2005.

In 2005, KEB handled 46% of all F/X transactions conducted through the eight largest Korean commercial banks, maintaining a firm lock on the market leadership we have held for decades. Our nearest competitor had 14%. Based on nationwide foreign trade volumes, our shares of the export and import transactions were 25% and 27%, respectively, reflecting clear leadership in the trade finance market.

Recognizing our capabilities, the authoritative journal *Global Finance* again selected KEB as "Best Foreign Exchange Bank in Korea" and "Best Trade Finance Bank in Korea" for 2005. They mark the fifth and sixth consecutive years, respectively. These honors only reinforce the bank's determination to retain its unrivalled position in foreign exchange and trade finance in the years to come.

The KEB advantage in foreign exchange business comes not only from our growing array of customer-pleasing F/X products, but also from distinguishing ourselves in the level of service quality and specialization that customers can expect to receive at our branches in Korea and abroad.

In the area of trade finance, the bank provides a comprehensive menu of services that make international transactions faster and more efficient. KEB offers exchange risk hedging products after helping customers their foreign exchange exposure based on F/X assets and liabilities. In addition, we operate an internet-based EDI (Electronic Data Interchange) service for online automation of trade-related document handling, eliminating the need to make personal trips to the branch. In 2005, one of KEB's product experts received special commendation from top government agencies for his contribution to service innovation as demonstrated in the development of the "National Electronic L/C Advising System."

Investment Banking

For roughly three decades, KEB has been the pioneer and pacesetter of the nation's investment banking (IB) industry. Our Investment Banking Division brings competitive franchise expertise and experience to bear in the areas of underwriting, securitization, structured finance and M&A advisory service, garnering industry recognition and the praise of clients year after year.

Last year, KEB played a key role in arranging loans for Hynix Semiconductor, Inc.. KEB was the book runner & joint coordination arranger for syndicated loan and revolving credit facility totaling USD1,800 million, in what was the largest international deal done in Korea during 2005.

The Korean IB market environment is undergoing fundamental transition. In addition to mounting competition from domestic securities firms and global players, there is ample liquidity at home and abroad, a slowdown in corporate investment, a tightening of pricing, and changes in clients' needs. In response, KEB is pursuing a mixed strategy that includes diversification of new profit models and strengthening our capabilities in acquisition finance, investment in SOC (Social Overhead Capital), BTL(Build-Transfer-Lease) projects, energy field projects, and real estate development.

Custody & Fund Administration

KEB continued to play a leading custody provider to institutional investors and government pension schemes in 2005. With our subsidiary KEB Investors Service acting as administrator, we offer a total-solution approach to custodial services and fund administration. Our clients are local and overseas institutional investors, including government agencies, pension funds, asset management companies, insurance companies and foreigners investing in Korea. Our custody services range from securities settlement, safekeeping and entitlement processing to F/X, cash management, compliance and NAV monitoring, performance measuring, and consolidated and multi-currency accounting services. KEB also provides asset management support for Korea's Ministry of Labor.

Currently, KEB accounts for approximately 15% share of Korean custody market. Last year the bank enjoyed solid growth in total assets under custody, rising 21.6% to USD48.9 billion with balanced expansion in three main sectors: domestic, cross-boarder and agency services consisting of securities lending, ABS trustee and escrow accounts.

Our outstanding service capability was evidenced by KEB becoming the first bank in Korea to earn an overall "A+" rating from *Thomas Murray*, the London-based international custody rating agency.

Foreign-invested Enterprises

KEB has distinguished itself as the first choice for many foreign-invested enterprises (FIEs) operating in Korea, leveraging our expertise as Korea's foremost FX & trading finance handler, as well as our advanced e-banking platform that includes the popular "CMS Plus", online cash management service.

KEB succeeded in attracting an additional 516 FIEs to the bank's client roster in 2005, raising the total to 4,636 at year-end 2005. In terms of official FDI notification through the bank, KEB represented 34% of all cases nationwide, the highest share among all Korean banks.

The bank is bolstering its FDI-related marketing in conjunction with related institutions, chambers of commerce, law firms and others, speeding up the FDI notification process, and strengthening co-marketing efforts. KEB is also planning to establish a dedicated FDI sub-branch in alliance with "Invest Korea (KOTRA)" to handle the specific needs of our existing and potential FIE customers.

Continuous Linked Settlement

Continuous Linked Settlement (CLS) is the electronic cross-border settlement of foreign exchange transactions between global financial institutions. Through CLS, both sides of a FX transaction are settled simultaneously on a real-time payment versus payment basis with multi-lateral netting.

CLS system consists of 56 major financial institutions around the world, including KEB, which act as Settlement Member Banks (SMB) and 674 as Third-Party Banks (TPB) as of January 2006. KEB has acted the Settlement Member and Korean Won Liquidity Provider for CLS Bank International since December 2004.

After its first full year in service, KEB currently settles foreign exchange transactions via CLS for 12 out of 15 local banks, accounting for about 90% of CLS Won currency transaction volume in Korea. KEB's CLS transactions have increased dramatically from a few thousand cases in January 2005 to more than 53,000 cases in February 2006, and this trend is expected to continue. KEB's CLS service has strengthened its leading position in the foreign exchange business.

In addition to its successful positioning in CLS Third Party Bank Services, KEB is also taking the lead in Korean Won Nostro accounts services for foreign CLS member banks. Currently, KEB is the only bank providing Won Nostro account services in Korea, and we expect to extend this service to the majority of foreign banks preparing for Korean Won CLS settlement.

Overseas Operations

Our customers have very broad, diverse and international banking needs. So KEB has built an extensive overseas network of branches and offices to serve those needs. This broad global network enhances our capabilities in trade finance, F/X, and remittance businesses, and allows us to better meet our customers' requirements as their business operations expand overseas. As of the end of 2005, KEB's overseas operations included 17 branches, 9 subsidiaries and 2 representative offices in 21 countries.

Just as different regions of the world experience upturns and downturns in line with the shifting focus of the global economy, so too does KEB's overseas branch network. We continually monitor regional and local business conditions and are prepared to react swiftly when necessary, restructuring and realigning our presence based on the long-term outlook of each market where we operate.

Last year, KEB continued to solidify its presence in dynamic and growing new markets around the globe, including the so-called BRICs economies. To capitalize on growing business prospects in high-growth markets, KEB established liaison offices in Shenzhen, China and Moscow in 2004, followed by an office in Santiago, Chile in 2005. In addition, through recapitalizing the bank's subsidiary in Brazil, KEB has begun to actively regain business in the South American market. KEB increased our stake in our profitable and growing Indonesian subsidiary, P.T. KEB Indonesia, to 99% by acquiring the 14% minority shareholding of P.T. Bank Danamon, thereby improving the financial stability of the subsidiary and strengthening our marketing focus in Indonesian financial markets.

On the other hand, we restructured underperforming branches and subsidiaries. Due to the suspension of construction work on North Korea's light-water reactor project at the end of last year, KEB closed its Kumho Representative Office in January 2006. We also reached agreement to sell our entire 31.5% stake in CFEB (Cairo Far East Bank) to Bank Audi of Lebanon. This sale closed in March 2006, culminating a long-term project to sell the CFEB shares as part of KEB's efforts to improve capital usage since the Asian financial crisis.

RIGHT PRODUCTS TO RIGHT CUSTOMERS

With better customer-focused marketing strategies and product offerings, we deliver 'the right products to the right customers'. The Retail Bank offers a variety of new deposit products, meeting the needs of specific customer segments. To meet the demand for personalized investment products, KEB offers the best performing products to our customers from which ever fund manager we choose.

PARK JOO YONG_ Senior Manager, Retail Market Development Division

Retail Bank

KEB's retail bank operation has been expanding its business boundary from traditional customer deposits & loans business to become a wide-range financial product provider through bancassurance, beneficiary certificates sales, and etc.

Deposits

Rather than engage in cutthroat interest rate competition with other banks to lure general depositors, KEB pursued a more prudent policy approach of controlling funding costs, while still protecting our relationships with our most important and profitable customers. As a result, total deposits declined slightly 0.5 trillion won or 1.4% YoY to 38.0 trillion won as of year-end 2005.

To adapt to low market interest rates, the bank concentrated its energies in developing a variety of new deposit products. First, we introduced new deposit accounts that combine the characteristics of equity-linked deposits and time deposits, creating a new hybrid that met customer demand for investment-type alternatives to standard deposit instruments. Most recently, KEB unveiled a very creative sports marketing program with the launch of the "Lee Young-pyo Soccer Deposit," featuring Korea's star soccer player, with attractive interest rates linked to the performance of the Korean National team in the 2006 World Cup.

Household Lending

Our household loan portfolio saw substantial growth of 11.0% in 2005, rising from 12.2 trillion won in 2004 to 13.5 trillion won. Of this total, housing-related lending reached 8.8 trillion won, representing an increase of 5.9% YoY. General-purpose consumer loans were 4.7 trillion won, a large increase of 21.8% YoY demonstrating KEB is not dependant simply on the mortgage market for its healthy growth .

This impressive performance resulted from KEB's determined efforts to identify our best customers and to develop new loan products tailored to meeting their needs. Notable success was achieved in sales of the bank's "Leaders Loans" aimed at employees of good performing companies, and in sales of "Yes Pro Loans" targeting doctors, lawyers and other high income generating professionals.

Private Banking

Rising expectations of high net-worth individuals (HNWIs) requiring a "total financial service package" approach to product & service development and delivery. Responding to the diverse and evolving needs of HNWIs, KEB re-launched its Private Banking business and its Wealth Management Centers (WMCs) as independent branches solely dedicated to PB business.

In 2005, KEB operated three WMCs while consolidating the number of PB Branches from 65 to 50 in order to ensure a consistently high level of capabilities and performance for our HNWI customers.

Through our strong Private Banking network, KEB leverages its superior F/X know-how and overseas branch network to provide a whole new level of Global Wealth Management expertise and consulting that can't be found at any other Korean bank.

Bancassurance

After nearly three years in operation, KEB's bancassurance business - the sales of various third-party insurance products through our branch network - has achieved outstanding results.

KEB boosted its market share from 11.6% in 2004 to 13.1% in 2005, expanding its partnerships with insurers such as Allianz, ACE and Shindongah. Profits from our bancassurance business stood at 31.1 billion won, representing an increase of 19.2% from 26.1 billion won in 2004..

Our strong performance in bancassurance and other fee-based products despite a relatively small number of branches shows the quality and attractiveness of the KEB customer base.

Sales of Investment Products

In 2005, low interest rates and the bullish mood of the Korean stock market fueled demand for personalized investment products. KEB's results were particularly rewarding, with assets under management (AUM) rising a solid 19.5% from 3,401 billion won at year-end 2004 to 4,065 billion won at the close of 2005. Even more impressively, profits from sales of investment products soared from 8.5 billion won to 26.5 billion won YoY.

Rather than managing and selling its own investment products, KEB has adopted an "open architecture" approach, offering our customers the best performing third-party managed products that are ideally suited to their diverse needs. The bank also relies on its expertise in the foreign exchange field to support sales of offshore funds. At the end of 2005, KEB handled sales of a total 73 onshore funds and 83 offshore funds.

Card Bank

In February 2004, the credit card operations of troubled subsidiary KEB Credit Services were merged and integrated into KEB. The merger solved the capital and liquidity problems of KEBCS, and has enabled rehabilitation of the card business through closer integration with various operations of KEB, such as treasury, investment technology, credit assessment, and marketing through our branch network.

KEB's effort to fix the business in the shortest possible timeframe paid positive results as the bank successfully addressed massive bad credit card assets and restructured the card business for profitability by the end of 2004.

2005 represented the first full year of normalized business for the Card Bank, and the results have been highly encouraging. The business recorded a net profit of 257.3 billion won, and asset quality was normalized as we slashed our card delinquency ratio by 3.4%p to a healthy 4.3% at year-end 2005.

Efforts to restore sound asset quality of the credit card portfolio continued into the 1st half of 2005, with bad asset write-offs and restructuring of high-risk accounts generating continuous asset size reduction. KEB successfully improved the quality of its assets by shifting higher risk cash advance & card loans to better balanced card portfolio. With these efforts completed, for the first time since the merger, KEB's credit card receivables began to grow from a low point of 2.2 trillion Won in 3Q2005.

With asset quality objectives achieved, KEB is pursuing safe and profitable growth as a competitive provider of versatile card solutions, the Card Bank pursued a three-pronged strategy last year of improving sales capabilities, strengthening profitability, and expanding a foundation for stable earnings.

This included further differentiating our card products & services by analyzing the offerings of our competitors and identifying areas where customers' needs weren't being met. The result was a series of new card products (Expat Card for foreign residents, World Cash Card for overseas travelers, WMC Membership Platinum, etc.) with unique and personalized user benefits. Special promotions, customer segmentation, database-driven cross-selling, and other innovative marketing techniques were employed to fully attack these opportunities.

One of our most noteworthy product launches in 2005 was "Expat" card. As one of the measures to target profitable customer segments, the "Expat" card meets the special needs of expatriates living in Korea. Special services include dedicated credit underwriting, English billing statement, English hot line and English web-site. The "Expat" card, which is the only one of its kind in Korea, is backed by the VISA platinum card program and provides significant and relevant benefits and features.

To shore up profitability, we implemented risk-based pricing in setting interest rates, we introduced new fees & commissions and we reduced our processing expenses. To expand our stable earnings base, KEB launched promotional events and programs during the year to induce qualified card loan customers and promote revolving credit services. We also worked to strengthen ties with our top 5,000 member merchants, reinforced support for outstanding card customers, upgraded quality assurance, and revamped back office operations.

In the year ahead, KEB will continue to pursue these same objectives of broadening the earnings base and enhancing sales competitiveness, while at the same time actively cultivating customer loyalty.

CUSTOMER-FOCUSED

Restoring strong asset quality, turning a profit and creating a stable earnings basis were our main tasks for 2005.
Now the Card Bank can concentrate on developing and marketing new card products, cross-selling and other customer-focused activities.

AN, EUN HYUN_ Associate, Card Bank

Risk Management

Risk Control & Management

Credit Risk: Our credit risk systems using Credit VaR calculations enable us to manage customers' potential losses at an appropriate level based on the category of credit ratings or business units. Also, through implementation of the individual loan rating system, KEB has established the foundation for implementing RAPM (Risk Adjusted Performance Measures Assessment) across our bank.

Market Risk: KEB employs the global standard RiskWatch tool to assess market factors and their impact on all financial products, making daily mark-to-market valuations, correlations to estimate Market Value-at-Risk (VAR), sensitivity calculations and scenario analyses. KEB also calculates interest rate risk using interest rate sensitivity gap and effective duration gap, in conjunction with Earnings at Risk (EaR) management.

Liquidity Risk: Our Daily Assets Liabilities Management system enables KEB to manage both liquidity ratio and liquidity risk, while our liquidity risk Contingency Plan ensures that KEB stands ready to meet any type of potential liquidity crisis with rapid-response measures.

Operational Risk: To manage and mitigate operational risks, KEB conducts regular inspections and has adopted monthly and quarterly checklists covering its unique aspects of risk.

New Basel Capital Accords (Basel II) Preparations

Basel II, which will be effective from the end of 2007 in Korea, aims to enhance risk management abilities in the global banking industry by requiring adequate capital reserves for credit risk, market risk and operational risk.

KEB is actively preparing for the introduction of the Fundamental Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for quantifying operational risk contained in Basel II. We believe the bank's preparation for Basel II are in good order.

The bank plans to complete IT implementation for credit risk & operational risk measurement by the end of June and begin Use Tests from July of this year, in order to prepare for preliminary operation of systems prior to the actual implementation of Basel II at the end of 2007.

FORCE BEHIND THE SCENES

You won't see us behind the teller's window, but we're definitely hard at work behind the scenes helping KEB's electronic systems operate smoothly and efficiently. We enable the delivery of every product or service and are the forces behind the rapid growth in KEB's e-Banking & e-Business solutions

KIM, HONG YEOP_ Assistant Manager, IT Operations Division

Information Technology (IT)

KEB has devoted significant resources to building a new IT infra structure for the future of the bank. Our intensive efforts delivered the successful conversion of all bank operations to the Next Generation Banking System (NGBS) as of February 2005. Through NGBS, KEB enhanced convenience efficiency and flexibility in providing services for today's corporates, retail, and card customers.

For much of 2005, we enhanced the bank's competitiveness with new programs and built an IT support system for major business area. To promote further expansion of KEB's bancassurance business, the new IT system was developed to handle a wider range of insurance products. Another success of our IT efforts was the development of the bank's "Wealth Management System" to provide first-class financial consulting services.

e-Business

We sought to increase both revenues and our customer base in 2005 by developing new and improved e-Banking products & services, and by reinforcing our e-Business marketing and promotion strategies. These efforts paid off as management targets across the board were met or exceeded. Monthly average private and corporate e-Banking customers rose to 823,000 individuals, a 14.9% YoY rise, and to 8,243 companies, a 21.0% rise. Monthly average e-Banking transactions during the year stood at 9.6 million transactions, over 40% of total bank transactions.

Best Cash Management Bank

Our proven leadership in the field of e-banking was recognized by Asiamoney, which selected KEB as "Best Cash Management Service Bank in Korea" of 2005. KEB not only earned top honors as Best CMS Bank, but our CMS Plus was chosen "Best CMS Product of the Year" as well.

Over 14,000 domestic large and small corporations, including 700 global overseas investment firms, already make active use of the diversified electronic banking services that CMS Plus offers: cash collection, electronic settlement, fund transfer, F/X, foreign currency account management and many others. New CMS features aimed at making banking simpler and more convenient for our corporate clients include strengthened cash forecasting, F/X risk-hedging, cash sweeping and netting.

CARING & SHARING

As employees of one of Korea's most profitable financial institutions, we feel a duty and a desire to help our community. The KEB Foundation channels our time, energy and contributions effectively into worthy causes. We are also proud that KEB is at the industry forefront in merit-based hiring & compensation and management compliance & ethics.

PARK, KI WON_ Associate, KEB Foundation

Building a "Foundation for Sharing"

KEB has carried out its role as good corporate citizen in the communities where we do business. Our management and employees of KEB have voluntarily and consistently participated in extensive program of community service. KEB also has made it easier for "netizens" to donate to or participate in community services to charitable organizations through its internet homepage.

KEB's charitable and community activities were reinforced as the "KEB Foundation" was launched in December 2005, the first community support organization founded by a financial institution in Korea.

In addition to an initial donation of 6 billion won and ongoing assistance from the bank's management, the Foundation enjoys the support of over 400 employees of KEB who lend their time and talent to a variety of local community activities and charitable works at home and abroad.

Indicative of the high profile and great importance the bank places on the Foundation, its directors include former First Lady Lee Hee-Ho (wife of former President Kim Dae-Joong), and *Wall Street Journal* "Top 50 Women to Watch" designee Kim Sung-Joo. KEB Chairman Robert E. Fallon serves as chairman of the Foundation's board of directors.

The KEB Foundation represents a departure from previous and other existing charity, community service and social welfare programs, which tend to focus resources and attention on single-issue, one-time or temporary events. The objective now is to engage in year-round activities in a more systematic and sustained manner.

Contributions to the funding of Foundation activities and day-to-day operation will come from a variety of sources. KEB will provide support annually, while employees will make personal donations of time or money. Customers themselves can also get involved in the Foundation's good works via the KEB Foundation Deposit product, 0.1% of sales of which go to the Foundation.

Creating an Advanced Corporate Culture

Just as the bank has pioneered new frontiers in financial products and services, KEB is also proud to be the industry trendsetter in creating a corporate culture where all employees are encouraged to excel.

Traditional hiring practices in Korea have for too long placed too much emphasis on age, gender and school ties. However, KEB became the first financial institution in the country to implement an open hiring system focused on the individual abilities and talents of every job applicant.

Recently, the bank hired 118 new employees without imposing the standard educational or age guidelines, seeking only the best manpower based purely on their merits. The results showed a healthy mix and an even distribution in terms of age, gender, marital status, and academic background. Likewise, the bank applied the same fair and open hiring criteria in converting 55 former contract employees into regular bank staff, further demonstrating KEB's firm commitment to new standards of equality and meritocracy in personnel policy. Moreover, staff placement decisions are made jointly by functional leaders and Human Resources, in careful consideration of each employee's background and abilities, making every effort to ensure that the bank has "the right person for the job" in every area of our operations.

The bank strives to encourage and challenge the staff to improve their abilities and expertise, as well as to reward their achievements. The new "Rose Bonus" system, introduced in July 2005 for all KEB staff, provides incentives based on the growth of the bank's share price and book value per share (BPS). Through cash rewards to employees for enhancing corporate value, the bank encourages staff loyalty and dedication, and helps KEB achieve key performance targets.

FINANCIAL SECTION

Management Discussion & Analysis was prepared on the basis of the results of non-consolidated financial statements.

1. Key Financial Data

(In Billions of Korean Won)

	2005	2004	Y o Y
Operating Results			
Total Income	2,417.6	2,338.4	+3.4%
Net Interest Income	1,677.2	1,624.3	+3.3%
Fees & Commissions	468.4	552.8	-15.3%
Non Interest Income	272.1	161.4	+68.6%
Total Expenses(G&A)	995.3	847.0	+17.5%
Operating Income	1,422.3	1,491.4	- 4.6%
Net Income	1,929.3	522.1	+269.5%
Profitability Indices			
Net Interest Margin (NIM)	3.23%	2.41%	+0.82%p
Return on Assets	3.05%	0.81%	+2.24%p
Return on Equity	43.97%	19.43%	+24.54%p
Balance Sheet Data at Year-End (Including Trust Account)			
Total Assets	72,719.8	67,167.7	+8.3%
Total Credits	43,475.5	41,529.0	+4.7%
Total Deposits	44,245.6	43,765.6	+1.1%
Asset Quality			
NPL Ratio	0.90%	1.82%	-0.92%p
NPL Coverage Ratio	157.3%	108.8%	+48.5%p
Precautionary & Below Ratio	1.95%	3.57%	-1.62%p
Pre & Bel. Coverage Ratio	72.2%	55.3%	+16.9%p
Delinquency Ratio	0.93%	1.78%	-0.85%p
Capital Adequacy			
BIS Ratio	13.68%	9.47%	+4.21%p
Tier I ratio	9.65%	5.51%	+4.14%p
Tier II ratio	4.04%	3.96%	+0.08%p

2. Overview

In 2005, KEB proved itself to be a top-tier bank in Korea as it set record-high earnings and realized significant improvements in both capital adequacy and asset quality.

Net income for 2005 was 1.9 trillion won, more than triple the previous year's net income of 522.1 billion won. Recognizable improvement in profitability with solid results each quarter demonstrated the financial soundness of KEB and the ability to generate stable earnings going forward.

Capital-building efforts backed by improved earning power delivered the best capital adequacy in the bank's history. The bank's BIS capital ratio increased to 13.68% in 2005 from 9.47% in 2004, an increase of 4.21%p YoY. Tier 1 ratio also grew to 9.65% in 2005 from 5.51% in 2004, an increase of 4.14%p YoY, demonstrating strong capitalization.

Asset quality also steadily improved, with ratios for non-performing loans and delinquency reaching 0.90% and 0.93%, respectively, both below the peer average.

3. Profitability

1) Summary of Profitability

Net income increased to 1,929.3 billion won in 2005 from 522.1 billion won in 2004. The increase in net income was due to a combination of solid business performance and steadily increased lendings, improved Net Interest Margin (NIM), and gains on monetization of assets as part of the bank's capital-building efforts.

With complete normalization of credit card business, the card bank returned to profitability from a deficit of 558.9 billion won in 2004 to a profit of 257.3 billion won in 2005, making itself again a key business component for the bank.

Allowance for loan losses declined substantially due to the normalization of bad debts and improved asset quality. The increase in net income was also driven by significant special asset monetization actions, including the sale of Hynix shares, as well as the substantial reduction in loan loss provisioning. Furthermore, a 300.6 billion won of deferred income tax profit also contributed to the increased profitability.

With the tremendous gain in profitability, KEB had an ROA of 3.05% and an ROE of 43.97%, proving KEB to be a world-class bank.

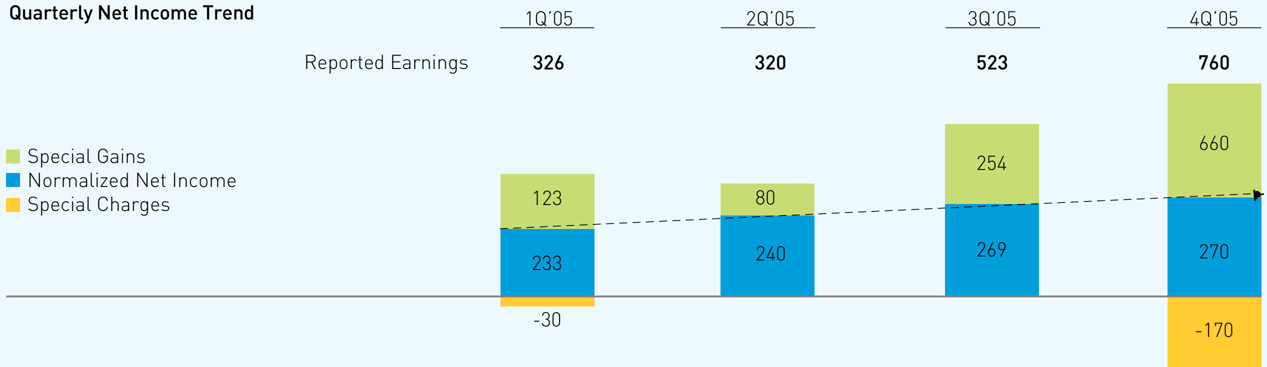
(In Billions of Korean Won)

	FY2005			4Q			3Q			2Q			1Q			FY2004		
	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card
Net Interest Income	1,677.2	1,150.0	527.1	465.3	335.4	129.9	417.0	285.4	131.6	412.5	280.6	132.0	382.3	248.6	133.7	1,624.3	1,131.7	492.6
Fees & Commissions	468.4	582.1	-113.8	127.2	161.1	-33.9	119.1	145.4	-26.3	115.7	143.7	-28.0	106.4	131.9	-25.5	552.8	625.7	-72.9
Non Interest Income	272.1	243.1	29.0	60.2	41.1	19.2	58.6	66.8	-8.2	71.9	46.5	25.5	81.3	88.8	-7.5	161.4	373.6	-212.2
Total Income	2,417.6	1,975.3	442.3	652.7	537.6	115.1	594.8	497.7	97.1	600.1	470.7	129.4	570.0	469.3	100.7	2,338.4	2,131.0	207.4
Total Expenses(-)	995.3	900.0	95.2	333.7	306.9	26.8	231.9	210.0	21.9	223.7	200.6	23.2	205.9	182.5	23.3	847.0	756.9	90.1
Operating Income	**1,422.3**	**1,075.3**	**347.1**	**319.0**	**230.7**	**88.3**	**362.9**	**287.7**	**75.2**	**376.4**	**270.1**	**106.2**	**364.2**	**286.8**	**77.4**	**1,491.4**	**1,377.1**	**117.3**
Impairment Loss, etc.(-)	-436.1	-442.8	6.7	-254.3	-255.5	1.2	-188.4	-188.4	-	33.1	28.9	4.2	-26.5	-27.8	1.3	46.3	40.5	5.8
Income Before Provisions	**1,858.5**	**1,518.0**	**340.4**	**573.3**	**486.1**	**87.1**	**551.2**	**476.0**	**75.2**	**343.3**	**241.3**	**102.0**	**390.6**	**314.5**	**76.1**	**1,445.1**	**1,333.6**	**111.5**
Provisions & Others(-)	-70.9	-154.0	83.2	-186.6	-235.9	49.4	27.7	18.1	9.7	23.1	3.3	19.8	64.8	60.5	4.3	923.0	252.5	670.5
Net Income	**1,929.3**	**1,672.0**	**257.3**	**759.9**	**722.1**	**37.8**	**523.5**	**458.0**	**65.5**	**320.1**	**237.9**	**82.2**	**325.8**	**254.0**	**71.8**	**522.1**	**1,081.0**	**-558.9**

Even aside from the extraordinary events of 2005, KEB's earning power demonstrated a steady increasing trend with normalized quarterly net income growing to 270 billion won in 4Q2005 from 233 billion won in 1Q2005.

(In Billions of Korean Won)

Quarterly Net Income Trend



Details of Special Items

(In Billions of Korean Won)

		1Q`05	2Q`05	3Q`05	4Q`05	FY2005
Special Gains	Sale of Debt-to-Equity swapped positions	15	3	127	277	422
	Recoveries of NPLs	54	37	97	27	215
	Sales of NPLs	54	40	30	23	147
	Deferred Tax Effect	-	-	-	300	300
	Others	-	-	-	33	33
	Total	123	80	254	660	1,117
Special Charges	Special Bonus	-	-	-	50	50
	Retroactive CBA payment	-	-	-	20	20
	Regulatory Reserve Changes	-	-	-	100	100
	One-off provisioning item for NPLs	30	-	-	-	30
	Total	30	-	-	170	200

2) Net Interest Income

Interest revenue in 2005 showed a slight decline compared to the previous year. However, the solid performance in loan growth helped to offset the bulk of the reduction of interest revenue due to prevailing low interest rates.

Interest expenses decreased significantly thanks to cost savings from the replacement of high-cost debentures and subordinated debts.

As a result of cost savings on the funding side, net interest income for 2005 increased to 1,677.2 billion won, up 3.3% from the previous year.

(In Billions of Korean Won)

	FY 2005	4Q	3Q	2Q	1Q	FY 2004	Y o Y
Interest Revenue	3,266.6	874.3	807.7	802.5	782.0	3,359.3	-2.8%
Income on due from banks	26.0	7.1	7.2	6.6	5.1	23.2	+11.9%
Interest on securities	450.9	134.6	101.6	112.0	102.7	521.3	-13.5%
Interest Income on loans	2,768.9	728.1	694.4	679.7	666.7	2,788.0	-0.7%
Bank	2,140.8	574.6	541.3	525.4	499.6	2,160.2	-0.9%
Card	628.1	153.5	153.1	154.4	167.1	627.8	-
Others	20.8	4.6	4.6	4.1	7.5	26.8	-22.5%
Interest Expenses	1,495.9	376.2	368.5	375.1	376.1	1,640.1	-8.8%
Interest on deposits	935.3	236.0	235.4	231.1	232.8	1,036.3	-9.7%
Interest on borrowings	209.2	61.2	54.4	49.6	43.9	157.2	+33.1%
Interest on debentures	334.0	74.0	74.4	91.1	94.5	431.5	-22.6%
Others	17.4	5.0	4.3	3.3	4.8	15.2	+14.7%
Insurance expense for deposits & Contribution for Credit Guarantee Fund (-)	100.8	30.3	23.3	23.6	23.6	101.2	-0.4%
Other interest income	7.3	-2.5	1.0	8.8	-	6.3	+15.8%
Net Interest Income	1,677.2	465.3	417.0	412.5	382.3	1,624.3	+3.3%
Bank	1,150.0	335.4	285.4	280.5	248.6	1,131.7	+1.6%
Card	527.1	129.9	131.6	132.0	133.7	492.6	+7.0%

3) Net Interest Margin (NIM)

The bank's NIM jumped to 3.23% in 2005. This reflected a reclassification of fee income generated by the credit card sector as interest income according to the change in accounting methods promulgated by the Financial Supervisory Service. This change was reflected in the NIM calculation method beginning from 4Q2005.

On a comparable basis before the accounting change, NIM for FY2005 rose to 2.59%, up from 2.41% in 2004, representing constant improvement from the cost savings on replacement of high-cost debentures, as well as a stable loan-to-deposit spreads through disciplined interest rate management.

(Unit: %)

(Accumulated Basis)	2005				2004			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Net Interest Margin (NIM)	3.23 (2.59)*	2.55	2.49	2.34	2.41	2.37	2.24	2.27
NIM in KRW	3.69 (2.89)*	2.82	2.78	2.54	2.70	2.67	2.52	2.57
NIM in Foreign currency	1.62	1.65	1.55	1.70	1.53	1.51	1.41	1.44
Loan to Deposit Spread in KRW (a-b)	3.13	3.12	3.12	3.02	3.08	2.99	2.98	2.94
Interest rate on Loans in KRW (a)	6.00	5.99	6.02	5.98	6.41	6.39	6.43	6.40
Interest rate paid on Deposits in KRW (b)	2.87	2.87	2.90	2.96	3.33	3.40	3.45	3.46

** ( ) represents the figures using the original method before the changes in FSS's NIM calculation*

4) Fees & Commissions

Fees & commissions remain a strong component of total income. KEB has further diversified its fees & commissions structure with robust performances in bancassurance and beneficiary certificates sales.

In 2005, despite the strong Korean won, KEB sustained a stable income trend in FX gains from customer transactions. However, the valuation loss (non-cash adjustment) on the financial derivatives for the interest swaps related to Korean Won subordinated debts caused the decline in overall FX transaction gains. Economically, this valuation adjustment is offset by higher floating rate income on the earning asset side.

Overall fees & commissions showed an increase led by strong growth from domestic business-related fee income such as bancassurance & beneficiary certificate sales, offsetting the decrease in foreign currency-related fee income. The foreign currency-related fee income was affected by the price pressure as the Korean Won appreciated, due to the structure of the bank's fee system which is quoted as percentage of foreign currency amount.

In the credit card sector, the Financial Supervisory Service promulgated a major accounting rule change starting from 1Q2005 whereby most credit card fee income was reclassified as interest income.

(In Billions of Korean Won)

		FY 2005	4Q	3Q	2Q	1Q	FY 2004	Y o Y
Bank	Gains from FX transaction	244.8	66.4	61.4	61.4	55.7	292.9	-16.4%
	Customer transaction	213.6	56.4	54.7	53.3	49.2	213.1	+0.2%
	P/L on valuation of derivatives	31.3	10.0	6.7	8.1	6.5	79.8	-60.8%
	Debenture IR Swaps	-18.8	-3.7	-4.8	-0.4	-9.9	32.5	U.
	Other derivatives	50.0	13.6	11.5	8.5	16.5	47.3	+5.8%
	Fees & Commissions	337.3	94.7	84.1	82.3	76.1	332.9	+1.3%
	KRW currency related	151.3	44.6	39.9	35.5	31.4	130.3	+16.1%
	Foreign currency related	129.4	34.7	30.8	32.2	31.7	140.2	-7.7%
	Others	56.5	15.4	13.5	14.6	13.0	62.3	-9.2%
	Bank - Total	582.1	161.1	145.4	143.7	131.8	625.8	-7.0%
	Total excl. P/L on valuation of Derivatives	550.9	151.2	138.8	135.6	125.3	546.0	+0.9%
Card		-113.8	-33.9	-26.3	-28.0	-25.5	-72.9	U.
Total		468.4	127.2	119.1	115.7	106.3	552.8	-15.3%

5) Non-Interest Income

The merchant account sector showed a large decrease in income compared to 2004, primarily due to the bank's intentional reduction of low profitability merchant accounts according to KEB's strategic business repositioning.

Significant special asset monetization actions in connection with the bank's efforts to strengthen the capital base resulted in a 69.6% YoY increase to 133.8 billion won in gains from the sale of non-performing loans.

(In Billions of Korean Won)

	FY 2005	4Q	3Q	2Q	1Q	FY 2004	Y o Y
Operating Trust Acct.	24.7	6.6	5.5	6.6	6.1	27.7	-11.0%
Merchant Acct.	13.8	3.5	3	3.2	4.1	20.4	-32.3%
Trading Profit (excl. PUB gain)	51.3	11.7	18	7.3	14.4	56.0	-8.4%
PUB sale*	-	-	-	-	-	181.1	Not comparable
Valuation equity method (excl. KEBCS)	45.6	15.3	13.4	10.5	6.4	43.3	+5.3%
Card sector (excl. NPL sale)	-24.6	-4.1	-8.2	-4.9	-7.5	-212.2	F.
NPL sales	133.8	12.2	30.0	37.4	54.1	78.9	+69.6%
Others	27.6	15.0	-3.2	12.0	3.8	-33.8	F.
Total	272.1	60.2	58.6	71.9	81.4	161.4	+68.6%

*This gain was occured from the sale of Pacific Union Bank, KEB's U.S. subsidiary, in 2004.

6) G & A Expense

A staff rationalization in 2004 enabled KEB to post only a modest increase in salaries in 2005. However, employee benefits were significantly higher due to special performance bonuses in conjunction with the bank's outstanding business performance and large gains from special asset sales.

Operating expenses increased by 18.8% compared to 2004, driven primarily by aggressive marketing activities including advertising, branch expansion and remodeling, etc.

Total operating expenses to total profit ratio showed an increase to 41.2% in 2005 from 39.3% (when applying total income excluding the gain-on-sale of PUB) in 2004, maintaining an acceptable level of expenses.

(In Billions of Korean Won)

	FY 2005	4Q	3Q	2Q	1Q	FY 2004	Y o Y
Salaries & benefits	605.4	216.7	135.9	127.7	125.1	501.0	+20.8%
Salaries	431.3	123.5	104.1	103.6	100.1	400.9	+7.6%
Employee benefits	174.2	93.3	31.8	24.1	25.0	100.1	+73.9%
Operating Expenses	237.4	70.1	56.7	61.4	49.3	199.8	+18.8%
Depreciation	114.8	33.4	29.2	28.1	24.1	113.7	+1.0%
Tax & Dues	37.7	13.6	10.2	6.6	7.2	32.5	+16.0%
Total	995.3	333.7	231.9	223.7	205.9	847.0	+17.6%
Bank	900.0	306.9	210.0	200.6	182.5	756.9	+18.9%
Card	95.2	26.8	21.9	23.2	23.3	90.1	+5.7%

7) Provisions, Tax Expenses, etc.

Provisioning for bad debts fell to 61.6 billion won, a decrease of 92.3% from the previous year, due primarily to the normalization of bad assets and steady improvement in asset quality.

During 4Q2005, a change in the reserve policy set by the Financial Supervisory Service required additional provisions to be included in reserves. Provisions requirement subject for guarantees & acceptances was expanded and resulted in an additional 20 billion won to be included in the provisions for bad debts. A provisioning requirement for unused commitment was also incorporated and resulted in an extra of 84 billion won in other reserves account.

The corporate tax sector was affected by deferred income tax asset recognition, resulting in a deferred income tax profit of 300.6 billion won.

(In Billions of Korean Won)

	FY 2005	4Q	3Q	2Q	1Q	FY 2004	Y o Y
Loan Loss Provisioning	61.6	7.5	8.2	10.9	35.0	804.9	-92.3%
Bank	28.4	2.2	-0.2	-7.2	33.6	136.5	-79.2%
Corporate	-0.9	-3.9	-3.8	-22.3	29.1	66.2	F.
Household	29.3	6.1	3.6	15.1	4.5	70.3	-58.4%
Card	33.2	5.3	8.4	18.0	1.5	668.3	-95.0%
Retirement Allowance	60.4	17.3	14.1	7.6	21.5	54.2	+11.4%
Other Provisioning	101.3	87.5	3.7	3.3	6.8	54.4	+86.2%
Income Tax expenses	-294.1	-298.9	1.8	1.4	1.6	9.5	F.
Total	-70.9	-186.6	27.7	23.1	64.8	923.0	F.

4. Assets & Liabilities (Bank Account)

1) Assets

Total assets (excluding trust assets) at the end of 2005 were 64.9 trillion won, a 6.0% increase from 61.3 trillion won from at the end of 2004.

Total loans increased to 40.9 trillion won, an increase of 4.1% from the previous year. Loan growth was mainly attributable to the increase in household and corporate loans, offsetting the decrease of credit card receivables.

Total securities increased to 12.9 trillion won at the year end 2005, an increase of 5.8% from the previous year. A significant increase in 1Q2005 has been relieved by the disposal of low-yield securities and debt-to-equity-swapped stocks.

(In Billions of Korean Won)

	2005.12	2005.09	2005.06	2005.03	2004.12	Y o Y
Cash & Due from Banks	2,880.7	3,376.6	3,206.2	3,574.7	2,584.2	+11.5%
Securities	12,879.2	12,884.9	13,896.6	14,562.5	12,172.8	+5.8%
Loans & Discounts	40,922.0	40,308.3	39,295.7	38,012.5	39,304.5	+4.1%
Credit Card Receivables	2,260.5	2,160.9	2,242.3	2,396.2	2,620.0	-13.7%
Other Asset	7,152.2	7,882.9	8,686.7	8,668.9	6,082.6	+17.6%
Merchant Banking Accounts	1,116.9	1,306.0	1,395.0	1,270.9	1,157.5	-3.5%
Total Assets	64,951.0	65,758.8	66,480.3	66,089.5	61,301.6	+6.0%

2) Liabilities & Shareholders' Equity

Deposits declined to 38.0 trillion won, a decrease of 1.4% from the previous year, reflecting KEB's pricing discipline, and targeted customer segmentation marketing efforts. Financial debentures also decreased to 5.9 trillion won, slipping 8.5% from the previous year. However, these decreases were offset by an increase of 10.5% in borrowings.

Total shareholders' equity increased to 5.7 trillion won in 2005 from 2.9 trillion won in 2004, a 93.1% YoY increase, driven primarily by growth in retained earnings.

(In Billions of Korean Won)

	2005.12	2005.09	2005.06	2005.03	2004.12	Y o Y
Deposits	38,009.5	38,336.8	39,924.5	38,282.5	38,537.9	-1.4%
Borrowings	6,740.4	7,245.8	6,531.2	7,030.1	6,097.7	+10.5%
Debentures	5,930.7	5,440.4	5,697.5	6,099.9	6,480.8	-8.5%
Other liabilities	7,522.6	9,448.4	9,200.1	10,353.5	6,187.7	+21.6%
Merchant Banking Acct.	1,090.1	704.1	1,267.5	870.9	1,068.1	+2.1%
Shareholders' Equity	5,657.7	4,583.3	3,859.5	3,452.7	2,929.4	+93.1%
Liabilities & Shareholders' Equity	64,951.0	65,758.8	66,480.3	66,089.5	61,301.6	+6.0%

3) Korean Won-currency Loans

The KRW-currency loan portfolio as of end-2005 consisted of 49.5% for companies (SMEs: 41.3%, Large Corps.: 8.2%), 43.0% for households, 7.2% for credit cards, and 0.3% for others.

SME lending has shown a steady increase of 8.2% with focuse on export/import-oriented and high-quality companies. Although loan demand from large corporations has remained generally flat, there has been a minor upswing in the volume of loans to large corporations. Household loans have seen a significant increase of 11.0% with growth in both mortgage-related loans and personal loans to higher-grade customers and specialized professionals.

In 2005, bad asset write-offs, restructuring of high-risk accounts, and the near complete run off of the book of rewritten accounts in the card sector resulted in a decline of credit card receivables to 2.3 trillion won in 2005 from 2.6 trillion won in 2004. However, for the first time since the merger of the credit card subsidiary in 2004, the bank's credit card receivables began to achieve net growth after reaching a low of 2.2 trillion won in 3Q2005.

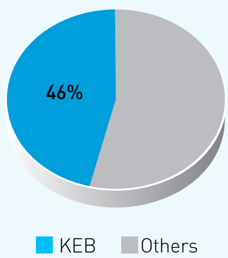
(In Billions of Korean Won)

	2005.12	2005.09	2005.06	2005.03	2004.12	Y o Y
Household loan	13,488.5	13,102.1	12,669.8	12,226.3	12,153.1	+11.0%
Housing-related	8,770.4	8,727.2	8,535.9	8,308.5	8,279.6	+5.9%
Corporate	15,493.0	14,885.0	14,242.7	14,422.9	14,229.3	+8.9%
SMEs	12,938.1	12,304.1	11,984.8	12,159.4	11,962.7	+8.2%
Large Corp.	2,554.9	2,580.9	2,257.9	2,263.6	2,266.5	+12.7%
Public & others	90.8	67.9	82.9	112.2	116.2	-21.9%
Sub total	29,072.3	28,055.1	26,995.3	26,761.4	26,498.6	+9.7%
Credit Card Receivables	2,260.5	2,160.9	2,242.3	2,396.2	2,620.0	-13.7%
Total	31,332.7	30,216.0	29,237.6	29,157.6	29,118.6	+7.6%

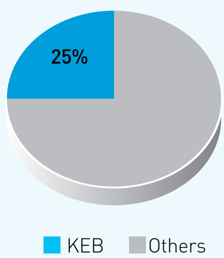
4) Foreign Exchange & Trade Finance

In 2005, the bank handled 25% and 27% of the nation's total export and import transaction volume, respectively, while maintaining its leading share in F/X with 46% of transactions conducted by Korea's eight leading commercial banks. These leading market shares demonstrate that, in the midst of tough competition environment, the bank's capabilities and brand power continues to bolster its strong presence and leadership in the nation's F/X and trade finance markets.

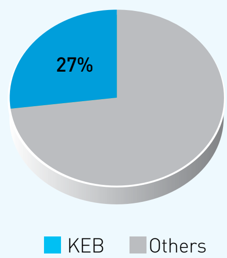
FX Market Share(%)



Export Market Share(%)



Import Market Share(%)



5. Asset Quality

1) Asset Classification

Through prudent credit risk management, KEB has achieved significant improvement in its asset quality and is now in the best shape in its history.

The NPL ratio was dramatically reduced to 0.90% in 2005 from 1.82% in 2004, a decrease of 0.92%p. The Precautionary & Below Ratio also declined to 1.95% in 2005 from 3.75% in 2004, a decrease of 1.62%p.

Through the reduction of non-performing loans and sufficient provision accumulation, the NPL coverage ratio jumped to 157.3% in 2005 from 108.8% in 2004. Precautionary & below coverage ratio has also increased to 72.2% in 2005 from 55.3% in 2004.

(In Billions of Korean Won)

	2005.12	(Excl. Card)	2005.09	(Excl. Card)	2005.06	(Excl. Card)	2005.03	(Excl. Card)	2004.12	(Excl. Card)
Normal	42,628.0	40,370.0	41,800.5	39,711.2	40,700.4	38,647.5	40,102.5	37,983.2	40,044.4	37,670.3
Precautionary	458.3	367.2	495.5	384.9	582.8	443.5	628.6	449.8	729.7	505.1
Substandard	229.8	229.8	326.5	326.5	311.9	311.9	330.6	330.6	414.1	414.0
Doubtful	91.5	34.8	45.0	45.0	151.9	56.5	265.6	138.3	228.3	66.0
Estimated Loss	67.9	60.7	60.9	60.9	90.3	82.7	109.1	84.9	112.5	99.1
Total Credits	43,475.5	41,062.5	42,808.9	40,528.5	41,837.3	39,542.1	41,436.4	38,986.8	41,529.0	38,754.5
Substandard & Below (NPL) (%)	0.90%	0.79%	1.20%	1.07%	1.32%	1.14%	1.70%	1.42%	1.82%	1.49%
Precautionary & Below (%)	1.95%	1.69%	2.36%	2.02%	2.72%	2.26%	3.22%	2.57%	3.57%	2.80%
Loan Loss Reserve	612.1	513.2	647.2	531.0	687.0	544.8	764.6	571.6	821.4	576.4
NPL Coverage (%)	157.3%	157.8%	126.2%	122.8%	124.0%	60.9%	108.4%	103.22%	108.8%	99.5%
Precautionary & Below Coverage (%)	72.2%	74.1%	64.2%	65.0%	60.4%	60.9%	57.3%	57.0%	55.3%	53.2%

2) Delinquency

The delinquency ratio in 2005 reached a record low level of 0.93% compared to 1.78% in 2004, a decrease of 0.86%p. Solid credit management resulted in consistent lower new delinquency formation.

Another major highlight was the substantially improved and normalized delinquency ratio for credit cards to 4.30% in 2005 compared to 7.62% in 2004. This improvement resulted primarily from bad asset write-offs, as well as high-risk account restructuring on cash advances and card loans.

(In Billions of Korean Won)

Reported basis	2005.12	2005.09	2005.06	2005.03	2004.12	Y o Y
Bank	0.71%	1.18%	1.01%	1.45%	1.34%	-0.62%p
Household	1.01%	1.24%	1.25%	1.85%	1.60%	-0.58%p
SME	0.77%	1.72%	1.22%	1.86%	1.40%	-0.63%p
Large corp./ Others	0.19%	0.29%	0.35%	0.28%	0.89%	-0.70%p
Card	4.30%	5.17%	6.43%	7.91%	7.62%	-3.33%p
Normal book	4.00%	4.69%	5.73%	6.92%	6.96%	-2.96%p
Re-aged book	13.23%	15.24%	17.60%	20.88%	14.65%	-1.42%p
Total delinquency ratio	0.93%	1.41%	1.32%	1.86%	1.78%	-0.86%p

6. Capital Adequacy

At the year end 2005, the BIS capital ratio stood at 13.68% compared to 9.47% of year end 2004, an increase of 4.21%p. Tier I ratio for 2005 was 9.65% compared to 5.51% for 2004; Tier II ratio for 2005 was 4.04% compared to 3.96% for 2004. The record high net income contributed to the bank's capital expansion. KEB has achieved the strongest capital position in the Korean banking industry in both quantity and quality of capital.

(In Billions of Korean Won)

	4Q 2005	3Q 2005	2Q 2005	1Q 2005	4Q 2004	Y o Y
Tier I	4,374.8	3,617.9	3,125.8	2,585.1	2,316.2	+88.9%
Paid in Capital	3,224.5	3,224.5	3,224.5	3,224.5	3,224.5	+0.0%
Capital Surplus	-	-	-	-	-	-
Retained Earnings	1,358.9	601.2	79.1	-242.2	-567.3	-339.5%
Outside Shareholder's Equity	1.1	1.1	8.8	8.5	8.4	-86.3%
Hybrid Tier I	250.0	250.0	250.0	250.0	250.0	0.0%
Deferred Income Tax Debits (-)	6.6	6.9	6.7	210.0	207.9	-96.8%
Cost of Issuing New Shares (-)	310.3	314.6	316.3	316.1	317.2	-2.2%
Other Intangible Fixed Assets (-)	84.5	87.0	88.0	91.4	43.2	+95.4%
Loss on Valuation of Investment Securities (-)	58.4	50.5	25.7	38.2	31.0	+88.4%
Tier II	2,036.2	1,950.7	1,839.9	1,719.2	1,798.0	+13.2%
Upper Tier II	-	-	-	204.9	208.8	-100.0%
Loan Loss Reserve	529.5	491.1	497.6	517.0	510.7	+3.7%
45% of Gain on Valuation of Investment Securities	655.8	511.2	398.6	360.9	281.3	+133.1%
Subordinated Debts	850.9	948.4	943.8	636.5	797.3	+6.7%
Others (-)	205.8	150.0	149.6	116.3	131.6	+56.4%
Total Qualifying Capital	6,205.1	5,418.7	4,816.1	4,188.0	3,982.7	+55.8%
Risk Weighted Asset (Including Market Risk)	45,351.8	44,510.9	43,490.0	42,522.0	42,055.8	+7.8%
BIS Ratio	13.68%	12.17%	11.07%	9.85%	9.47%	+4.21%p
Tier I Ratio	9.65%	8.13%	7.19%	6.08%	5.51%	+4.14%p
Tier II Ratio	4.04%	4.05%	3.89%	3.77%	3.96%	+0.07%p

Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying non-consolidated balance sheet of Korea Exchange Bank (the "Bank") as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005 and 2004, and the results of its operations, the appropriation of its retained earnings, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in note 2(a) to the accompanying non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated 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 non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and audit standards and their application in practice.

As discussed in note 20(f) to the accompanying non-consolidated financial statements, the Bank's outstanding loans (including payment guarantees) and available-for-sale securities with respect to Hynix Semiconductor Inc. ("Hynix") amount to ₩178,886 million and ₩1,426,115 million, respectively as of December 31, 2005 and the loans are classified as the normal according to the loan classification. As a result, the joint management agreement was terminated on July 12, 2005. In addition, the Bank sold 18,416,307 shares of Hynix, which is permitted to sale in over-the-counter market by Financial Institution Creditors Committee, at ₩350,146 million on October 26, 2005.

As discussed in note 4(h) to the accompanying non-consolidated financial statements on February 18, 2005, the Bank sold whole shares (2,760 thousand shares) of KEB Commerz Investment Trust Management Co., Ltd., a domestic subsidiary of the Bank, to Landmark Investment Trust Management Co., Ltd. for ₩28,043 million.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
January 26, 2006

This report is effective as of January 26 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto.
Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

(In millions of Won, except share data)

		2005	2004
Assets			
Cash and due from banks (notes 3, 15, 30 and 31)	₩	2,880,698	2,584,193
Securities (notes 4, 15 and 31)		12,879,222	12,172,759
Loans, less allowance for loan losses of ₩566,995 in 2005 and ₩871,228 in 2004, less net deferred loan fees and costs of ₩2,667 in 2005 and ₩1,271 in 2004 (notes 5, 15, 30 and 31)		40,921,935	39,304,541
Fixed assets, less accumulated depreciation of ₩663,079 in 2005 and ₩617,575 in 2004 (notes 6 and 16)		938,342	896,696
Other assets (notes 7 and 30)		6,213,875	5,185,894
Merchant banking account assets (notes 8 and 15)		1,116,904	1,157,504
Total assets	₩	64,950,976	61,301,587
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits (notes 9, 15, 30 and 31)		38,009,508	38,402,164
Borrowings (notes 10, 15, 30 and 31)		6,740,402	6,233,438
Debentures (notes 11, 15 and 31)		5,930,704	6,480,781
Other liabilities (notes 12, 15 and 30)		7,522,612	6,187,726
Merchant banking account liabilities (note 13)		1,090,081	1,068,088
Total liabilities		59,293,307	58,372,197
Shareholders' equity (note 1):			
Common stock of ₩5,000 par value:			
Authorized- 1,000,000,000 shares			
Issued- 644,906,826 shares in 2005 and 2004		3,224,534	3,224,534
Other statuary reserves (note 17)		34,965	30,694
Retained earnings (accumulated deficit) (notes 16 and 17)		1,287,380	(634,186)
Capital adjustments (note 18)		1,110,790	308,348
Total shareholders' equity		5,657,669	2,929,390
Commitments and contingencies (note 20)			
Total liabilities and shareholders' equity	₩	64,950,976	61,301,587

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

(In millions of Won)

		2005	2004
Operating revenue:			
Interest income (notes 30 and 31):			
Interest on due from banks	₩	25,976	23,211
Interest on trading securities		36,468	19,202
Interest on available-for-sale securities		305,259	405,813
Interest on held-to-maturity securities		109,171	96,275
Interest on loans		2,768,942	2,791,603
Other interest income		20,772	23,206
		3,266,588	3,359,310
Fees and commissions (notes 22 and 30)		412,400	441,693
Other operating revenue:			
Gain on disposition of trading securities		82,814	48,114
Gain on valuation of trading securities		7,912	4,618
Dividend on trading securities		1,350	1,332
Dividend on available-for-sale securities		7,965	4,107
Gain on derivatives trading and foreign currency exchange (note 20)		2,646,299	2,530,062
Trust fees and commissions received from trust account (note 32)		24,712	27,682
Reversal of allowance for acceptances and guarantees		-	35,116
Operating revenue of merchant banking account (note 23)		63,000	72,805
		2,834,052	2,723,836
Total operating revenue		6,513,040	6,524,839
Operating expenses:			
Interest expenses (notes 30 and 31):			
Interest on deposits		935,327	1,036,313
Interest on borrowings		209,208	157,174
Interest on debentures		333,993	431,456
Other interest expenses		17,402	15,179
		1,495,930	1,640,122
Commission charges (notes 24 and 30)		208,759	202,916
Other operating expenses:			
Loss on disposition of trading securities		49,551	27,998
Loss on valuation of trading securities		6,878	877
Loss on derivatives trading and foreign currency exchange (note 20)		2,402,002	2,247,405
Provision for loan losses (note 5)		41,955	840,235
Provision for allowance for acceptances and guarantees		21,625	-
Deposit insurance premium and contribution to credit guarantee fund		100,813	101,207
Loss on obligation to return securities with repurchase agreement		678	-
Provision for other liabilities		101,295	57,433
Other operating expenses of merchant banking account (note 25)		49,512	52,043
		2,774,309	3,327,198
General and administrative expenses (note 26)		1,055,675	901,250
Total operating expenses		5,534,673	6,071,486
Operating income		978,367	453,353

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

(In millions of Won, except earnings per share data)

		2005	2004
Non-operating income:			
Gain on disposition of available-for-sale securities	₩	473,976	287,530
Equity earnings from affiliates (note 4)		45,708	44,988
Recovery of impairment losses on available-for-sale securities (note 4)		58,727	1,431
Recovery of impairment losses on held-to-maturity securities (note 4)		39,667	-
Gain on disposition of loans		23,137	50,158
Gain on disposition of written-off loans		124,646	28,780
Rental revenue		2,315	2,728
Others		31,981	39,779
		800,157	455,394
Non-operating expenses:			
Equity loss on from affiliates (note 4)		-	113,203
Impairment losses in investments in affiliates (note 4)		850	-
Impairment losses on available-for-sale securities (note 4)		84,248	79,527
Impairment losses on held-to-maturity securities (note 4)		27,185	25,353
Loss on disposition of available-for-sale securities		6,707	6,458
Loss on disposition of tangible assets		2,400	725
Loss on disposition of loans		14,027	85
Others		24,671	169,553
		160,088	394,904
Ordinary income		1,618,436	513,843
Extraordinary gain		16,690	17,675
Earnings before income taxes		1,635,126	531,518
Income taxes (tax benefits) (note 27)		(294,201)	9,451
Net income	₩	1,929,327	522,067
Ordinary earnings per share (note 28)			
Basic	₩	2,966	783
Diluted	₩	2,964	783
Earnings per share (note 28)			
Basic	₩	2,992	811
Diluted	₩	2,990	811

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF APPROPRIATION (DISPOSITION) OF RETAINED EARNINGS (ACCUMULATED DEFICIT)

Years ended December 31, 2005 and 2004

Date of Appropriation for 2005: March 29, 2006
Date of Disposition for 2004: March 28, 2005

(In millions of Won)

		2005	2004
Unappropriated (undisposed) retained earnings (accumulated deficit):			
Balance at beginning of year	₩	(642,268)	(344,482)
Investment securities in subsidiaries accounted for using equity method		321	(73)
Accumulated deficit transferred due to the merger with Korea Exchange Bank Credit Card Service Co., Ltd.		-	(811,698)
Net income		1,929,327	522,067
Balance at end of year before appropriation (disposition)		1,287,380	(634,186)
Transfer from voluntary reserves:			
Other statuary reserves		21	-
Unappropriated retained earnings available for appropriation (disposition)		1,287,401	(634,186)
Appropriation (disposition) of retained earnings (accumulated deficit):			
Other Statuary reserves		4,322	8,082
Amortization of discounts on capital stock		324,854	-
		329,176	8,082
Unappropriated (undisposed) retained earnings (accumulated deficit) to be carried over to subsequent year	₩	958,225	(642,268)

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

(In millions of Won)

		2005	2004
Cash flows from operating activities:			
Net income	₩	1,929,327	522,067
Adjustments to reconcile net income to			
net cash provided by (used in) operating activities:			
Gain on valuation of trading securities, net		(1,034)	(3,741)
Gain on disposal of available-for-sale securities, net		(467,269)	(281,072)
Impairment losses on available-for-sale securities, net		25,521	78,096
Impairment losses and recovery of impairment loss			
on held-to-maturity securities, net		(12,482)	25,353
Equity loss (earnings) from affiliates, net		(44,858)	68,215
Gain on disposal of loans, net		(9,110)	(50,073)
Loss on disposal of tangible assets, net		916	587
Loss (gain) on valuation of derivatives, net		(51,888)	101,366
Deferred losses on foreign currency translation, net		4,457	1,364
Loss (gain) on derivatives trading and foreign exchange, net		3,165	(25,898)
Provision for other liabilities		101,295	57,433
Amortization of debt securities purchased with premiums, net		(13,329)	26,371
Provision for loan losses		41,955	840,235
Depreciation and amortization		114,967	115,852
Provision of retirement and severance benefits		60,375	54,233
Stock option compensation costs		8,531	6,492
Reversal of allowance for loan losses in merchant banking account		(1,973)	(242)
Provision (reversal) of allowance for acceptances and guarantees		21,625	(35,116)
Amortization of present value discounts		(9,280)	(13,825)
Gains from liabilities exempted		(16,690)	(16,175)
Income tax benefits		(300,553)	-
Gain on disposition of lease assets, net		(5,309)	(174)
Gain from trading of bills, net		(2,185)	-
Changes in assets and liabilities:			
Decrease (increase) in accrued income		(63,127)	47,082
Increase in trading securities		(450,451)	(365,979)
Decrease (increase) in prepaid expenses		31,711	(10,622)
Increase (decrease) in accrued expenses		(125,807)	104,288
Increase (decrease) in unearned income		3,144	(17,167)
Decrease in accrued income tax expenses		(1,038)	(1,883)
Increase in deferred tax assets		-	(3,866)
Payment of severance benefits		(7,247)	(40,071)
Decrease in transfer to National Pension Fund		12	773
Increase in deposit of insurance for retirement and severance benefits		(41,816)	(19,647)
Exercise of stock options		(1,221)	-
Net cash provided by operating activities		720,334	1,164,256

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Years ended December 31, 2005 and 2004

(In millions of Won)

		2005	2004
Cash flows from investing activities:			
Decrease in available-for-sale securities	₩	2,293,462	792,829
Decrease (increase) in loans		(1,635,222)	1,585,807
Increase in held-to-maturity securities		(570,434)	(601,404)
Decrease in equity securities under the equity method of accounting		16,716	443,611
Purchase of fixed assets		(157,351)	(128,396)
Decrease in other assets		2,521,003	2,127,146
Decrease in merchant banking account assets		36,936	488,781
Net cash provided by investing activities		2,505,110	4,708,374
Cash flows from financing activities:			
Decrease in deposits		(375,966)	(4,070,167)
Proceeds from (repayment of) borrowings		506,964	(1,514,054)
Proceeds from (repayment of) debentures		(550,077)	375,197
Decrease in other liabilities		(2,379,677)	(2,612,986)
Increase (decrease) in merchant banking account liabilities		30,797	(570,887)
Payment of stock issuance costs		-	(19)
Net cash used in financing activities		(2,767,959)	(8,392,916)
Net increase (decrease) in cash and cash equivalents		457,485	(2,520,286)
Transfer due to the merger		-	28,718
Cash and cash equivalents at beginning of year		2,593,524	5,085,092
Cash and cash equivalents at end of year (note 29)	₩	3,051,009	2,593,524

See accompanying notes to non-consolidated financial statements.

(1) Organization and Description of the Bank

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

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") was finalized on February 28, 2004 (see note 34).

The Bank implemented a two-to-one capital reduction on all outstanding shares of common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. In addition, on December 22, 2000, the Bank increased its capital by issuing 122 million new shares of preferred stock at par value of ₩5,000 per share in accordance with a resolution of board of directors on November 10, 2000.

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

In addition, LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerzbank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. Also, 122 million shares and 26 million shares of preferred stock were converted to common stock on December 22, 2003 and April 22, 2004, respectively.

In addition, the Bank issued 5,981,895 shares of common stock of the Bank to the shareholders listed in the stockholders' list of KEBCS as of February 28, 2004 according to the merger agreement (see note 34).

As of December 31, 2005 , the total number of authorized shares of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,907 thousand shares of common stock outstanding with par value of ₩5,000).

The Bank's shareholders as of December 31, 2005 and 2004 are as follows:

	Number of shares owned	Ownership (%)
LSF-KEB Holdings, SCA	325,851,715	50.53
Commerzbank AG	94,247,389	14.61
Export-Import Bank of Korea	89,448,595	13.87
Bank of Korea	39,500,000	6.12
Others	95,859,127	14.87
	644,906,826	100.00

LSF-KEB Holdings, SCA has a right to acquire 41,764,077 shares and 49,134,208 shares of KEB from Commerzbank and Export-Import Bank of Korea, respectively, through exercising call options by October 31, 2006. LSF-KEB Holdings, SCA is promoting sales of its stake in KEB as of December 31, 2005.

As of December 31, 2005, the Bank has 335 branches, agencies and offices in domestic and overseas markets. The Bank closed eight domestic branches and agencies and opened ten domestic branches and agencies during 2005. In addition, the Bank sold the domestic subsidiary, KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT") on February 18, 2005 (see note 4(h)).

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its accompanying non-consolidated financial statements are summarized as follows:

(a) Basis of Presenting Financial Statements

The Bank maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles 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 in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated 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 non-consolidated financial statements.

The accompanying non-consolidated financial statements include only the accounts of the Bank, and do not include the accounts of any of its consolidated subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting (see note 4(b)).

Effective January 1, 2005, the Bank adopted Statements of Korea Accounting Standards ("SKAS") No. 15 "Investments in Associates", No. 16 "Income Taxes", No. 17 "Provisions, Contingent Liabilities and Contingent Assets". As allowed by these standards, prior year balances were not reclassified to conform to the current year presentation.

According to the revision of the Regulation on Supervision of Banking Business, the Bank additionally accrued allowance for estimated potential losses on unconfirmed guarantees and acceptances, endorsed notes, and confirmed guarantees and acceptances with credit classifications of normal and precautionary. Also the Bank accrued allowance for estimated potential losses on unused loan commitments with credit classification of normal as of December 31, 2005. As allowed by these standards, prior year balances were not reclassified to conform to the current year presentation

Regarding the overseas branches and subsidiaries, the Bank used their financial statements that are prepared in accordance with the financial accounting standards generally accepted in their locations, except for the cases that have material effect on the Bank's financial statements, due to difference of standards in various countries.

Certain accounts of prior year's financial statements, presented herein for comparative purposes, were reclassified to conform to the current year's presentation. These reclassifications did not result in any change to reported net income (losses) or shareholders' equity.

(b) Recognition of Interest Income

Interest income on due from banks, loans and investments is recognized on an accrual basis, while interest income on overdue and defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2005 and December 31, 2004, the amount of interest not recognized due to such policy approximates ₩66,885 million and ₩156,037 million, respectively.

All additional gains during the process of handling loans are deferred and recorded as deduction from the loan amount. Additional expenses with the future economic profits, which can be classified by individual loans, are also deferred and expressed as addition to the loan amount. Such gains and expenses are reversed or amortized using effective interest rates and expressed as addition to or deduction from the interest income.

(c) Allowance for Loan Losses

The Bank applied the Forward Looking Criteria ("FLC") for its loan classification based on the credit rating to determine allowance for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness is considered in developing the credit rating and the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate, retail loan customers and credit card accounts are classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses as of as of December 31, 2005 and 2004 were determined by applying the following minimum percentages to each credit risk classification:

Classification	Corporate loans	Retail loans	Credit card loans and receivables
Normal	0.50%	0.75%	1.0%
Precautionary	2.0%	8.0%	12.0%
Substandard	20.0%	20.0%	20.0%
Doubtful	50.0%	55.0%	60.0%
Estimated loss	100.0%	100.0%	100.0%

Until 2004, the Bank had accrued allowance for estimated potential losses on confirmed guarantees and acceptances with credit classifications of substandard, doubtful and estimated loss. From 2005, according to the revised of Regulation on Supervision of Banking Business, the Bank established allowance for estimated losses on unconfirmed guarantees and acceptances and endorsed notes as well as confirmed guarantees and acceptances considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses.

Also, the Bank had accrued allowance for estimated potential losses on unused limit of cash advance of credit card that have been used at least once in recent one year. However, from 2005, the Bank accrued allowance for estimated potential losses on total unused limit of credit card including unused limit of cash advance with credit classification of normal. Additionally the Bank accrued allowance for estimated potential losses on unused loan commitments for corporate and retail loan customers considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses.

(d) Securities

Upon acquisition, the Bank classifies certain debt and equity securities into one of the three categories of held-to-maturity, available-for-sale, or trading securities and such determination should be reassessed at each balance sheet date. Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

The securities are initially carried at cost, including incidental expenses, determined by using the specific-identification method or moving-average method.

Trading securities are carried at fair value, with unrealized holding gains and losses included in income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Beneficiary certificates are recorded at the fair value determined by the investment management companies.

Impairment losses are recognized in current operations when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities. Recognition of unrealized gains and losses is summarized as follows:

Classification	Valuation method	Recognition of unrealized gains and losses
Trading	Fair value	Current operations
Available-for-sale:		
Debt securities and marketable equity securities	Fair value	Capital adjustment (except for impairment losses, which is recognized in current operations)
Non-marketable equity securities	Cost	Impairment losses to net income
Held-to-maturity	Cost	Amortized cost
Investments in affiliates	Equity	Current operations, retained earnings (accumulated deficit), or capital adjustments, depending on the source of the gains or losses

On January 1, 2005, the Bank changed its presentation manner to reflect valuation of assets included in its private placement fund to the balance sheet by classifying it into private placement fund presented as beneficiary certificate, which was previously classified into each fund per their purpose. Such change in presentation method was retroactively applied to the prior year balance sheet with no effect to the net asset value, ordinary income and net income.

(e) Investment Securities under the Equity Method of Accounting

Equity securities held for investment in which the Bank is able to exercise significant influence over the investees, are accounted for using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the investees are accounted for as an adjustment to retained earnings or to capital adjustments.

Under the equity method of accounting, the Bank does not record its share of losses of affiliate companies when such losses would make the Bank's investment in such entity less than zero. But , the Bank holds other assets such as preferred stock or loans for investee the Bank's share of loss of investee remains recorded until such assets are reduced to nil.

Any excess in the Bank's acquisition cost over its share in the investee's identifiable net assets is considered as goodwill and amortized using the straight-line method over five years of estimated useful life. If the Bank's acquisition cost is less than its share in the investee's net asset value, then the portion of difference caused by the investee's amortizable non-monetary assets is reversed over the weighted average useful lives of such assets by using the straight-line method, and the remaining resulted from the investee's unamortizable assets is reversed at the point when disposed or expensed. If the difference between the Bank's acquisition cost over its share in the investee's net asset value is resulted due to the specific assets and liabilities which are evaluated using their fair market values, such difference is accounted for using the investee's accounting treatments applied for such assets and liabilities.

Prior to January 1, 2005, upon the sale to affiliates, the Bank fully eliminates the unrealized gain, whereas in the sale to the Bank, the Bank proportionately eliminates the unrealized gain based on its percentage of ownership. Effective from January 1, 2005, the Bank adopted SKAS No. 15 "Investments in Associates". In accordance with this standard, gains and losses recorded between the Bank and the affiliates from the transactions are proportionately eliminated, based on the Bank's percentage of ownership over the affiliates. In addition, gains and losses from the sale to the consolidated subsidiaries are fully eliminated.

(f) Tangible Assets

Tangible assets are recorded at cost, including incidental expenses, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see note 16). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated useful lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

(g) Intangible Assets

Intangible assets consist of primarily of software development costs related to the office automation and productivity enhancement. Amounts capitalized were ₩60,844 million and ₩26,409 million in 2005 and 2004, respectively while the amortization costs were ₩18,642 million and ₩8,403 million, respectively.

(h) Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure which are to be sold are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

When the Bank disposes of foreclosed assets in installment sales, in conformity with accounting standard for the Korean banking industry, the proceeds and the sale gain/loss are recognized as receivable - disposition of asset and gain/loss - disposition of asset, respectively.

(i) Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expense.

(j) Retirement and Severance Benefits

Employees and executives who have been with the Bank for more than one year are entitled to lump-sum payment based on the current rate of pay and the length of service when they leave the Bank. Retirement and severance benefits of ₩176,136 million and ₩123,258 million represent the amount, which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2005 and December 31, 2004, respectively. The Bank's actual payments of severance benefits were ₩7,247 million (excluding ₩3,151 million of additional early retirement payments) and ₩40,071 million (excluding ₩89,592 million of additional early retirement payments) in 2005 and 2004, respectively.

As of December 31, 2005, approximately 74.9% of the severance benefit provision is covered by the employee retirement policies purchased from insurance companies including Samsung Life Insurance Co., Ltd., under these policies, the employees are the beneficiaries as well as the Retirement Trust provided by Chohung Bank and other financial institutions.

Through March 1999, under the National Pension Scheme of Korea, the Bank transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Bank and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction from the retirement and severance benefit liability. Since April 1999, however, a new regulation applies and such transfers to the National Pension Fund are no longer required.

(k) Restructuring of Troubled Loans

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, and the difference between the nominal amount and present value is accounted for as the allowance for loan losses to the extent available. The remaining difference is recorded as provision for loan losses. Amortization of these discounts is included in other interest income. Allowance for loan losses for loans adjusted by above method is calculated based on the nominal amount, net of present value discount.

(l) Discounts on Capital Stock

Discounts on capital stock arising from the payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized within three years through appropriations of retained earnings.

(m) Income Taxes

Income tax on the earnings or losses comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet dates.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that those are no longer probable that the related tax benefit will be realized. In addition, deferred income tax assets and liabilities recorded by the foreign branches are included in other assets and liabilities, and corresponding income tax benefits and expenses are recorded as non-operating income and expenses.

(n) Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

(o) Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet dates, with the resulting gains and losses recognized currently and included in gains or losses on foreign exchange transactions. The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards. The exchange rate used to convert U.S. Dollar into Korean Won on December 31, 2005 was ₩1,013.0:US$1.

(p) Stock Options

The stock option program allows the Bank's employees to acquire shares of the Bank. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Bank values stock options based upon an option pricing model under the minimum value method (under the fair value method as for the stock options granted after December 31, 2003) and recognizes this value as an expense over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received, and the difference between the exercise price and market price is included in compensation cost and credited to the capital adjustment account. In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank.

All stock options granted prior to December 31, 2003, were accounted for using minimum value method using the Black-Scholes model. Effective on January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

(q) Derivatives

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. Gain or loss from valuation of trading derivative instruments is reflected in current operations. Fair value hedge accounting and cash flow hedge accounting are applied to the derivative instruments designed to hedge risks meeting certain conditions.

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, or is added to or deducted from the book values of the related assets or liabilities at the time when the hedged forecasted transaction actually incurs.

(r) Trust Fees and Compensation to the Trust Accounts

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The bank's trust fees received from trust account in 2005 and 2004 are ₩24,712 million and ₩27,682 million, respectively.

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return. The reserves are used for future losses on such trust funds and, if the losses are incurred in excess of the reserves for future losses, the excess losses are compensated by the banking accounts. Accordingly, the banking accounts recognize the compensation paid as losses due to the trust accounts. However, there has been no losses related to the trust accounts in 2005 and 2004.

(s) Merchant Banking Accounts

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

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

- *Cash Management Accounts ("CMA")*
  The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

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

  Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term. Operating lease equipment is stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

  The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets prior to the assets being ready for lease.

  Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that the related lease rental revenues are recognized.

(t) Earnings Per Share

Basic earnings per share is computed using the weighted-average number of common stock outstanding during the each period. Diluted earnings per share is based on an increased number of shares that would be outstanding assuming conversion of potentially dilutive securities.

(u) Cash Equivalents

The Bank considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(v) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable. Effective January 1, 2005, the Bank adopted SKAS No. 17 *"Provisions, Contingent Liabilities and Contingent Assets"*. This new standard is consistent with the Bank's previous policy.

(w) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in Republic of Korea requires the Bank's management to make estimates and assumptions that affect the amounts reported in financial statements and related notes to financial statements. Some of the more significant estimates include valuation of loans, securities, deferred tax assets, contingent liabilities and derivatives. Actual results may differ from those estimates.

(3) Cash and Due from Banks

Cash and due from banks as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at 2005.12.31	2005	2004
Cash on hand		₩ 1,396,406	1,266,966
Foreign currencies		261,806	240,408
Due from banks in Won:			
Reserve deposit with the Bank of Korea	-	177,818	237,045
Deposits with other banks	2.30 ~ 5.55	196,973	96,430
Deposits with other financial institutions	0 ~ 4.03	37,326	2,763
		412,117	336,238
Due from banks in foreign currencies:			
Reserve deposit with the Bank of Korea	-	191,394	226,344
Deposits with other financial institutions	0 ~ 4.50	10,672	1,570
Deposits with overseas financial institutions	0 ~ 4.50	608,303	512,667
		810,369	740,581
		₩ 2,880,698	2,584,193

Due from banks restricted in use as of December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004	Reference
Due from banks in Won:			
Reserve deposits with the Bank of Korea	₩ 177,818	237,045	Required under
Other deposits	81,477	70,674	the Banking Act
	259,295	307,719	
Due from banks in foreign currencies:			
Reserve deposits with the Bank of Korea	191,394	226,344	Required under
Other deposits	12,191	15,472	the Banking Act
	203,585	241,816	
	₩ 462,880	549,535	

The scheduled maturities of due from banks as of December 31, 2005 are as follows:

(In millions of Won)

	Due from banks and financial institutions in Won	Due from banks and financial institutions in foreign currencies	Total
Due in less than one year	₩ 330,641	808,935	1,139,576
Due from one to two years	-	-	-
Due from two to three years	-	1,434	1,434
Due from three to five years	-	-	-
Due after five years	81,476	-	81,476
	412,117	810,369	1,222,486

(4) Securities

Securities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005			2004		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 1,121,295	78,965	1,200,260	699,056	49,718	748,774
Available-for-sale	6,466,487	2,656,912	9,123,399	8,078,307	1,552,755	9,631,062
Held-to-maturity	2,208,463	-	2,208,463	1,463,988	-	1,463,988
Investments under the equity method	-	347,100	347,100	-	328,935	328,935
	₩ 9,796,245	3,082,977	12,879,222	10,241,351	1,931,408	12,172,759

(a) Debt Securities

Debt securities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005					2004			
	Annual interest rate (%)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair value(*2)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair value(*2)
Trading:									
Government bonds	2.50~10.17	₩ 56,141	55,814	55,810	55,306	140,549	143,341	143,186	143,500
Finance debentures	3.68~9.10	1,031,360	1,028,278	1,028,720	1,024,605	528,135	529,030	528,793	530,556
Beneficiary certificate	-	20,000	20,000	20,000	24,242	10,000	9,948	10,176	10,425
Bonds in foreign currencies	2.79~5.5	17,140	17,122	17,065	17,142	14,613	14,516	14,517	14,575
		1,124,641	1,121,214	1,121,595	1,121,295	693,297	696,835	696,672	699,056
Available-for-sale:									
Government bonds	3.00~10.89	2,475,598	2,505,849	2,485,350	2,452,868	2,775,151	2,822,924	2,806,065	2,806,093
Finance debentures	3.20~7.65	2,600,000	2,588,807	2,588,439	2,563,835	3,249,500	3,230,235	3,226,887	3,243,873
Corporate bonds	3.43~5.74	699,000	699,081	679,161	614,698	592,146	595,058	576,931	564,240
Beneficiary certificates	-	272,577	271,594	271,594	272,577	892,605	892,533	892,205	892,605
Other securities	-	90,404	90,403	41,795	41,540	88,694	88,694	52,612	46,979
Bonds in foreign currencies (*3)	0~7.63	533,180	527,550	523,842	520,969	554,295	548,729	584,216	524,486
Off-shore debt securities	-	3,039	3,039	-	-	8,350	4,254	31	31
		6,673,798	6,686,323	6,590,181	6,466,487	8,160,741	8,182,427	8,138,947	8,078,307
Held-to-maturity:									
Government bonds	2.50~6.67	924,852	922,263	924,534	924,534	510,114	511,248	513,526	513,526
Finance debentures	4.20~8.00	357,000	360,556	359,067	359,067	254,000	256,920	256,571	256,571
Corporate bonds	4.00~9.02	432,800	338,130	350,020	350,020	392,886	394,109	323,414	298,062
Other securities	-	1,990	1,971	1,971	1,971	2,290	2,272	2,272	2,272
Bonds in foreign currencies	0~7.63	570,003	577,541	573,650	572,871	388,220	394,131	394,053	393,557
		2,286,645	2,200,461	2,209,242	2,208,463	1,547,510	1,558,680	1,489,836	1,463,988
		₩ 10,085,084	10,007,998	9,921,018	9,796,245	10,401,548	10,437,942	10,325,455	10,241,351

*(*1) Adjusted acquisition cost was calculated by adjusting the difference between the acquisition cost and par value using the effective interest rate method.*

*(*2) Debt securities in Won are recorded at fair value using the yield provided by the Korea Securities Dealers' Association and debt securities in foreign currency and off-shore debt securities are recorded at fair value using the bid-price provided by Bloomberg or Reuter or risk-adjusted yield (calculated by reflecting the issuer's credit risk to the monetary stabilization bonds' yield).*

*(*3) Certain bonds in foreign currencies are subject to swap contracts in order to hedge risks from changes in interest rates and exchange rates. Gain and loss from foreign currency transactions amounting to ₩1,053 million and ₩3,656 million, respectively, have been accounted for as current operation in 2005.*

The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2005 are as follows:

(In millions of Won)

	Due in less Than one year	Due from one to five years	Due from five to ten years	Due after ten years	Total
Government bonds	₩ 1,011,777	2,391,092	29,839	-	3,432,708
Finance debentures	1,609,368	2,129,022	209,117	-	3,947,507
Corporate bonds	222,743	579,048	159,134	3,793	964,718
Beneficiary certificates	296,819	-	-	-	296,819
Other securities	2,102	1,035	-	40,374	43,511
Bonds in foreign currencies	108,719	311,459	680,758	10,046	1,110,982
	₩ 3,251,528	5,411,656	1,078,848	54,213	9,796,245

Debt securities in foreign currencies, classified by country/region, as of December 31, 2005 and 2004 are as follows:

	2005			2004		
Countries	In thousands of U.S.dollars (*)	In millions of Won	Ratio (%)	In thousands of U.S. dollars(*)	In millions of Won	Ratio (%)
Korea	$ 1,033,216	₩ 1,046,648	94.21	$ 823,546	₩ 859,617	92.14
USA	12,988	13,157	1.18	27,234	28,427	3.06
Philippines	5,609	5,681	0.51	7,675	8,011	0.86
Brazil	14,570	14,759	1.33	5,222	5,451	0.59
Hong Kong	5,144	5,211	0.47	5,182	5,409	0.58
Others	25,197	25,526	2.30	24,655	25,734	2.77
	$ 1,096,724	₩ 1,110,982	100.00	$ 893,514	₩ 932,649	100.00

(*) All currencies other then U.S. dollars were translated into U.S. dollars using the exchange rates as of the balance sheet dates.

(b) Equity Securities

Equity securities as of December 31, 2005 are as follows:

(In millions of Won)

	Shares owned by the Bank (1,000 shares)	Ownership ratio (%)	Acquisition cost	Market or net asset value	Book value
Trading securities:					
Trading securities in Won	4,363		₩ 77,573	78,965	78,965
Available-for-sale securities:					
Marketable equity securities in Won (*1)	76,495		₩ 764,743	2,486,215	2,486,215
Marketable equity securities in foreign currencies	1,169		15,167	21,158	21,158
Non-marketable equity securities in Won (*2)	28,048		173,995	146,365	146,365
Non-marketable equity in foreign currencies	151		6,179	1,725	1,725
Other investments	-		1,450	1,449	1,449
Total available-for-sale securities			₩ 961,534	2,656,912	2,656,912
Investment in domestic affiliates:					
KEB Capital Co., Ltd. ("KEBC")(*3)	14,976	99.3	₩ 74,881	78,682	78,682
KEB Future Co., Ltd. ("KEBFC")(*3)	3,000	100.0	15,000	20,640	20,640
MP&T(*4) (*5)	170	38.1	850	-	-
KEB Investor Services Co., Ltd.(*4)	510	100.0	2,550	2,550	2,550
			93,281	101,872	101,872
Investment in foreign affiliates:					
Korea Exchange Bank of Canada ("KEBOC")(*3)	334	100.0	26,322	58,226	58,226
KEB Australia Co., Ltd. ("KEBA")(*3)	55,000	100.0	38,527	21,498	21,498
P.T. Korea Exchange Bank Danamon ("KEBD")(*3) (*6)	1	99.0	27,168	59,009	59,009
KEB Brazil ("KEBB")(*3)	33,726	100.0	17,175	11,441	11,441
Korea Exchange Bank (Deutsch-land) AG ("KEBDAG")(*3)	20	100.0	20,589	39,598	39,598
Cairo Far East Bank S.A.E. ("CFEB")(*3)	832	31.5	8,281	4,243	4,243
KEB NY Financial Corp. ("NYF")(*3)	0.1	100.0	20,876	24,547	24,547
KEB LA Financial Corp. ("LAF")(*3)	0.1	100.0	20,876	23,487	23,487
KEB USA International Corp. ("USAI")(*3)	0.1	100.0	2,610	3,179	3,179
			182,424	245,228	245,228
Total securities accounted for using the equity method			₩ 275,705	347,100	347,100

*(*1) ₩2,466,817 million (book value) of the securities, which are debt-to-equity converted securities, are restricted from being sold.*
*(*2) ₩63,825 million (book value) of the securities, which are debt-to-equity converted securities, are restricted from being sold.*
*(*3) Amounts are based on unaudited financial statements of the affiliates.*
*(*4) These investment securities were excluded from the calculation to apply equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies was considered insignificant.*
*(*5) The company is in litigation as of December 31, 2005.*
*(*6) The Bank acquired shares of P.T. Korea Exchange Bank Danamon at ₩10,715 million in 2005.*

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004

Equity securities as of December 31, 2004 are as follows:

(In millions of Won)

	Shares owned by the Bank (1,000 shares)	Ownership ratio (%)	Acquisition cost	Market or net asset value	Book value
Trading securities:					
Trading securities in Won	4,722	-	₩ 48,361	49,718	49,718
Available-for-sale securities:					
Marketable equity securities in Won (*1)	132,865	-	₩ 1,158,335	1,329,776	1,329,776
Marketable equity securities in foreign currencies	1,169	-	30,504	43,870	43,870
Non-marketable equity securities in Won (*2)	50,273	-	310,703	169,582	169,582
Non-marketable equity in foreign currencies	-	-	12,578	8,022	8,022
Other investments	-	-	1,505	1,505	1,505
Total available-for-sale securities			₩ 1,513,625	1,552,755	1,552,755
Investment in domestic affiliates:					
KEB Capital Co., Ltd. ("KEBC")(*3)	14,976	99.3	₩ 74,881	69,685	69,685
KEB Commerz Investment Trust Management Co. Ltd. ("KEBIT")(*3)(*4)	2,760	46.0	13,800	15,600	15,600
KEB Future Co., Ltd. ("KEBFC") (*3)	3,000	100.0	15,000	18,394	18,394
MP&T(*5)	170	38.1	850	850	850
KEB Investor Services Co., Ltd.(*5)	510	100.0	2,550	2,550	2,550
			107,081	107,079	107,079
Investment in foreign affiliates:					
Korea Exchange Bank of Canada ("KEBOC")(*3)	334	100.0	26,322	50,868	50,868
KEB Australia Co., Ltd. ("KEBA")(*3)	55,000	100.0	38,527	20,997	20,997
P.T. Korea Exchange Bank Danamon ("KEBD")(*3)	1	85.0	16,453	44,950	44,950
KEB Brazil ("KEBB")(*3)	33,726	100.0	17,175	9,857	9,857
Korea Exchange Bank (Deutsch-land) AG ("KEBDAG")(*3)	20	100.0	20,589	44,169	44,169
Cairo Far East Bank S.A.E. ("CFEB")(*3)	832	31.5	8,281	4,153	4,153
KEB NY Financial Corp. ("NYF")(*3)	0.1	100.0	20,876	21,976	21,976
KEB LA Financial Corp. ("LAF")(*3)	0.1	100.0	20,876	22,045	22,045
KEB USA International Corp. ("USAI")(*3)	0.1	100.0	2,610	2,841	2,841
			171,709	221,856	221,856
Total securities accounted for using equity method			₩ 278,790	328,935	328,935

*(*1) ₩1,156,741 million (book value) of the securities, which are debt-to-equity converted securities, are restricted from being sold.*
*(*2) ₩66,416 million (book value) of the securities, which are debt-to-equity converted securities, are restricted from being sold.*
*(*3) Amounts are based on unaudited financial statements of the affiliates*
*(*4) On February 18, 2005, KEBIT was sold. (See note 4(h))*
*(*5) These investment securities were excluded from the calculation to apply equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies was considered insignificant.*

As of December 31, 2005, details of investments in affiliates accounted for using the equity method are as follows:

(In millions of Won)

					Increase (decrease) in equity of equity method investees			
	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Equity in earnings (losses)(*4)	Retained earnings	Capital adjustment	Book value
KEBC(*1)	₩ 74,881	69,686	-	-	14,666	-	(5,670)	78,682
KEBIT(*3)	13,800	15,600	(15,600)	-	-	-	-	-
KEBFC(*1)	15,000	18,394	-	-	2,246	-	-	20,640
MP&T(*2) (*4)	850	850	-	-	(850)	-	-	-
KEB Investor Services Co., Ltd.(*2)	2,550	2,550	-	-	-	-	-	2,550
KEBOC(*1)	26,322	50,867	-	193	7,166	-	-	58,226
KEBA(*1)	38,527	20,997	-	(1,834)	2,335	-	-	21,498
KEBD(*1) (*5)	27,168	44,950	10,715	(3,572)	10,049	-	(3,133)	59,009
KEBB(*1)	17,175	9,857	-	969	615	-	-	11,441
KEBDAG(*1)	20,589	44,169	(414)	(6,941)	2,784	-	-	39,598
CFEB(*1)	8,281	4,153	-	(264)	113	-	241	4,243
NYF(*1)	20,876	21,976	-	(649)	3,220	-	-	24,547
LAF(*1)	20,876	22,045	-	(650)	2,092	-	-	23,487
USAI(*1)	2,610	2,841	-	(84)	422	-	-	3,179
	₩ 289,505	328,935	(5,299)	(12,832)	44,858	-	(8,562)	347,100

*(*1) Based on the unaudited financial statements of the affiliates.*
*(*2) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies were considered insignificant.*
*(*3) These were disposed of during February 2005.*
*(*4) Including ₩850 million of the impairment losses on equity securities of Meta Payment & Trust Co., Ltd. which were valued at cost.*
*(*5) The Bank acquired shares of KEB Danamon at ₩10,715 million in 2005. The Bank recognized ₩3,133 million of difference between acquisition cost and additionally acquired equity of investee's net asset as changes in capital adjustment by using equity method.*

As of December 31, 2004, details of investments in affiliates accounted for using the equity method are as follows:

(In millions of Won)

					Increase (decrease) in equity of equity method investees			
	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Equity in earnings (losses)(*4)	Retained earnings	Capital adjustment	Book value
KEBCS(*1)	₩ 210,693	111,505	-	-	(111,505)	-	-	-
KEBC	74,881	58,056	-	-	3,105	-	8,524	69,685
KEBIT	13,800	14,971	-	-	1,086	(457)	-	15,600
KEBFC	15,000	16,478	-	-	1,916	-	-	18,394
Doosan Heavy Industries & Construction Co., Ltd.(*2)	82,000	250,085	(264,561)	-	18,396	384	(4,304)	-
MP&T(*3)	850	850	-	-	-	-	-	850
KEB Investor Services Co., Ltd.(*4)	2,550	2,550	-	-	-	-	-	2,550
PUB(*4)	38,493	82,869	(81,575)	(3,858)	2,821	-	(257)	-
KEB Ire.(*5)	3,436	7,019	(6,389)	(268)	(362)	-	-	-
KEBOC	26,322	47,331	-	(3,027)	6,564	-	-	50,868
KEBA	38,527	21,470	-	(2,011)	1,538	-	-	20,997
KEBD	16,453	50,520	-	(10,504)	4,934	-	-	44,950
KEBB	17,175	8,041	3,543	(390)	(1,337)	-	-	9,857
KEBDAG	20,589	45,090	(665)	(2,384)	2,128	-	-	44,169
CFEB	8,281	4,704	-	(605)	-	-	54	4,153
NYF	20,876	-	22,958	(2,082)	1,100	-	-	21,976
LAF	20,876	-	22,958	(2,082)	1,169	-	-	22,045
USAI	2,610	-	2,870	(261)	232	-	-	2,841
	₩ 613,412	721,539	(300,861)	(27,472)	(68,215)	(73)	4,017	328,935

*(*1) Result of operation of KEBCS allocated based on the Bank's ownership prior to the merger on February 28, 2004 was used in calculations.*
*(*2) Amounts were excluded from the applying equity method due to the partial disposal of investment.*
*(*3) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies were considered insignificant.*
*(*4) Amounts were disposed of during 2004.*
*(*5) The investee was liquidated during 2004.*
*(*6) Based on the unaudited financial statements of the affiliates as of the end of prior year.*

(c) Summary of Financial Information in Affiliates

As of December 31, 2005, summary of financial information in affiliates using the equity method is as follows:

(In millions of Won)

	KEBOC	KEBDAG	KEBD	KEBC	KEBA	Others	Total
Assets	₩ 531,976	343,588	243,905	183,037	128,224	430,496	1,861,226
Liabilities	473,750	303,990	184,300	103,157	106,726	330,328	1,502,251
Operating Revenue	28,242	32,925	23,353	41,379	14,367	54,915	195,181
Net income	7,166	2,784	10,924	20,015	2,335	8,204	51,428

(d) Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits as of December 31, 2005 and December 31, 2004 are ₩13,119 million (₩14,045 million) and ₩17,628 million (₩19,433 million), respectively.

(e) Securities Denominated in Foreign Currencies

Securities denominated in foreign currencies as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005		2004	
	Currency	In foreign currency (In Thousands)	Korean Won equivalent (In Millions)	In foreign currency (In Thousands)	Korean Won equivalent (In Millions)
Government bonds	USD	20,973	₩ 21,245	20,005	₩ 20,882
	HKD	34,804	4,547	160,039	21,482
	SGD	12,905	7,855	13,186	8,424
	Others(*1)	1,787	1,811	14,658	15,300
			35,458		66,088
Finance debentures	USD	888,560	900,112	706,666	737,617
	Others(*1)	30,990	31,393	-	-
			931,505		737,617
Corporate bonds	USD	132,887	134,614	113,535	118,508
	CHF	-	-	55	50
	JPY	1,088,641	9,366	1,022,251	10,346
	HKD	300	39	300	40
			144,019		128,944
Available-for-sale equity securities	USD	21,887	22,172	43,764	45,681
	CHF	924	711	6,738	6,211
			22,883		51,892
Investments in affiliates(*2)	Others(*1)	242,081	245,228	212,546	221,856
			₩ 1,379,093		₩ 1,206,397

*(*1) Securities denominated in other foreign currencies are presented at equivalent U.S. dollar amounts.*
*(*2) Korean Won equivalents were calculated using the book values resulted from applying equity method.*

(f) Securities Provided as Collateral

Securities provided as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2005 are as follows:

Guarantees	Pledge value	Reference
Bank of Korea	₩ 1,509,729	Borrowings from the Bank of Korea (BOK)
Bank of Korea	68,287	Overdrafts from BOK
Bank of Korea	653,448	Bonds sold under repurchase agreements (BOK)
Bank of Korea	299,428	Inter-bank settlements
Korea Development Bank	34,962	Asset-backed settlements
Futures Corporations, Banks	409,571	Futures transaction/Borrowings denominated in foreign currencies
Merrill Lynch	4,062	Credit default swap
Other financial institutions	516,969	Bonds sold under repurchase agreements
	₩ 3,496,456	

(g) Impairment Losses

Impairment losses on equity securities for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Issuer	Beginning balance	Impairment loss	Adjusted book value
Marketable securities in Won	Daerim Corp.	₩ 1,337	76	1,261
	Ssangyong Corp.	1,615	633	982
		2,952	709	2,243
Non-marketable securities in Won	Daerim Corp. (Preferred stock)	136	111	25
	Daewoo Electronics Corp	32,970	7,503	25,467
	Anam Co., Ltd.	4,400	3,666	734
	The Korea Economic Daily	126	6	120
	VCash Company Co. Ltd.	49	49	-
	CHK SPC	2	2	-
	Badbank Harmony Ltd. (Preferred stock)	5,479	5,479	-
	Korea Smart Card Co.Ltd.	1,624	1,203	421
		44,786	18,019	26,767
Other	KEB 4th SPC	1	1	-
Non-marketable securities in foreign currencies	CLS Group Holdings	5,165	4,454	711
		₩ 52,904	23,183	29,721

Impairment losses on debt securities for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Issuer	Beginning balance	Impairment loss	Adjusted book value
Available for sales securities	Daewoo Commercial Vehicle Co., Ltd.	₩ 388	257	131
	Hanbosteel Co., Ltd	80	80	-
	Kunyoung Co., Ltd.	7	7	-
	TCW GEM2	30	30	-
	KEB 11th ABS Subordinated bond	65,000	32,500	32,500
	KEB 12th ABS Subordinated bond	66,000	28,191	37,809
		131,505	61,065	70,440
Held to maturity securities	KEB 6th ABS Subordinated bond	26,350	26,350	-
	KEB 8th ABS Subordinated bond	7,195	835	6,360
		33,545	27,185	6,360
		₩ 165,050	88,250	76,800

The recovery of impairment losses on debt securities for the year ended December 31, 2005 is as follows:

(In millions of Won)

	Issuer	Book value prior to Adj.	Recovery of impairment loss	Adjusted book value
Marketable securities	Hynix (*1)	₩ 1,426,115	55,833	1,426,115
Non-marketable securities	Aekang	-	98	98
		₩ 1,426,115	55,931	1,426,213

*(*1) The amount of recovery of impairment losses reduced the amount of unrealized gain on available-for -sale securities (capital adjustment) and did not impact on the adjusted book value.*

The recovery of impairment losses on equity securities for the year ended December 31, 2005 is as follows:

(In millions of Won)

	Issuer	Book value prior to Adj.	Recovery of impairment loss	Adjusted book value
Available-for-sales securities	TCW GEM2(*1)	₩ -	1,879	-
	PEI (*2)	3,663	917	-
		3,663	2,796	-
Held-to-maturity securities	KEB 6th ABS Subordinated bond	36,637	18,363	55,000
	KEB 7th ABS Subordinated bond	31,401	2,393	33,794
	KEB 8th ABS Subordinated bond	30,250	10,750	41,000
	KEB 9th ABS Subordinated bond	44,907	8,161	53,068
		143,195	39,667	182,862
		₩ 146,858	42,463	182,862

*(*1) The recovery of impairment losses is the amount resulted from collecting the principal sum.*
*(*2) Transferred as accounts receivable as of December 31, 2005.*

(h) Sales and Liquidation of Subsidiaries

The Bank had entered into a contract to sell its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank. This sales transaction was finalized on April 30, 2004 upon the approval from Federal Reserve Bank of San Francisco on April 12, 2004. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed received amounted to US$195,924 thousand. The Bank recorded a gain on disposition of available-for-sale securities amounting to ₩181,463 million in 2004 .

KEB Ireland Ltd. ("KEB Ire"), a subsidiary of the Bank, was liquidated on September 30, 2004.

On February 18, 2005, the Bank sold 2,760,000 shares of KEB Commerz Investment Trust Management Co., Ltd., a domestic subsidiary of the Bank, to Landmark Investment Trust Management Co., Ltd. for ₩28,043 million. The Bank recorded a gain on disposition of available-for-sale securities amounting of ₩11,275 million for the year ended December 31, 2005 .

(i) Sale of Investments Accounted for Using the Equity Method

On December 17, 2004, the Bank sold four million shares (out of 16.4 million shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million. As its ownership declined to 11.9%, the remaining 12.4 million shares with book value of ₩198,173 million were excluded from the application of equity method and reclassified into available-for-sale securities. The Bank recorded a gain on disposition of available-for-sale securities of ₩593 million which was classified as non-operating income in 2004.

The Bank sold 12.4 million shares of the aforementioned company for ₩215,085 million in 2005. For year ended December 31, 2005, the Bank recorded a gain on disposition of available-for-sale securities amounting to ₩63,275 million which is classified as non-operating income.

(j) Elimination of unrealized profit from inter-company transactions

Material unrealized profit from inter-company transactions is eliminated when equity investments were valued. As of December 31, 2005, unrealized gain from lease transaction of inter-company transaction amounted to ₩977 million. There is no unrealized gain for the year ended December 31, 2004.

(k) Private Placement Funds

Assets for private placement funds held by the Bank as of December 31, 2005 are as follows:

(In millions of Won)

	Forever 12M Private Bond 2	SAFE&PLUS Private Hybrid 5	Total
Due from banks in Won	₩ 1,025	243	1,268
Call loans	20,327	1,119	21,446
Available-for-sale securities	199,661	28,077	227,738
Others	26,819	239	27,058
	₩ 247,832	29,678	277,510

(l) Structured Securities

Among available-for-sale securities, structured securities as of December 31, 2005 are as follows:

	Type	Issuer	Face value	Date of issue	Maturity	Fair value	Related risk
Securities in foreign currency Related to credit risk securities	CLN	Lehman Treasury	US$ 10,000 (*1)	2003.03.06	2006.03.06	₩ 10,173	Credit risk

*(*1) In thousands of U.S. dollars*

In addition to the above structured securities, the Bank has two private convertible debentures with par value of ₩1,970 million and the book value of nil, classified as loans. The Bank also has three convertible bonds in foreign currencies with par value of ₩8,733 million (US$8,621 thousand) and the book value of nil classified as available-for-sale securities.

(5) Loans

(a) Loans as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Loans in Won	₩ 28,369,355	25,678,795
Loans in foreign currencies	4,819,927	5,172,849
Bills bought in Won	776,340	895,815
Bills bought in foreign currencies	3,161,231	3,126,906
Call loans	1,329,649	825,573
Credit card accounts	2,260,487	2,619,986
Securities purchased under resale agreements	-	1,230,000
Other	774,608	627,116
	41,491,597	40,177,040
Less: allowance for loan losses	(566,995)	(871,228)
net deferred loan fees and costs	(2,667)	(1,271)
	₩ 40,921,935	39,304,541

Interest rates on the above loans are normally prime rates or effective market rates plus certain spreads, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent changes as prime rates fluctuate.

(b) Loans to Other Financial Institutions

Loans to other financial institutions as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005				2004			
	Banks	Domestic	Foreign	Total	Banks	Domestic	Foreign	Total
Loans in Won	₩ 36,433	492,211	-	528,644	-	182,170	-	182,170
Loans in foreign currencies	-	89,339	-	89,339	-	80,081	-	80,081
Call loans	891,911	-	437,738	1,329,649	175,029	-	650,544	825,573
	₩ 928,344	581,550	437,738	1,947,632	175,029	262,251	650,544	1,087,824

(c) Foreign Currency Loans by Country

As of December 31, 2005 and 2004, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

	2005			2004		
Countries	Thousands of U.S. dollars(*)	Millions of Won	Ratio (%)	Thousands of U.S. dollars(*)	Millions of Won	Ratio (%)
Korea	$ 3,382,112	₩ 3,426,079	71.08	$ 4,026,664	₩ 4,203,032	81.25
Japan	272,770	276,316	5.73	225,521	235,399	4.55
Indonesia	50,423	51,078	1.06	54,459	56,844	1.10
China	52,092	52,769	1.10	40,395	42,164	0.82
Thailand	19,823	20,081	0.42	9,940	10,375	0.20
Others	980,852	993,604	20.61	598,807	625,035	12.08
	$ 4,758,072	₩ 4,819,927	100.00	$ 4,955,786	₩ 5,172,849	100.00

(*) Loans denominated in other foreign currencies were presented at equivalent U.S. dollar amounts using the exchange rates as of the balance sheet date.

(d) Loans by Industry

As of December 31, 2005 and 2004, the Bank's loans denominated in Korean Won, including trade bills discounted, corporate bills discounted (a portion of bills discounted) and foreign currency loans to domestic borrowers classified by industry, are as follows:

(In millions of Won)

	2005		2004	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 9,302,029	28.78	₩ 9,139,626	30.47
Financial and insurance	468,380	1.45	271,325	0.90
Telecommunications	31,859	0.10	47,679	0.16
Wholesale and retail/service	3,775,815	11.68	3,692,559	12.31
Construction	1,857,698	5.74	1,597,761	5.33
Individuals and households	13,488,471	41.73	12,153,088	40.50
Others	3,401,106	10.52	3,095,026	10.33
	32,325,358	100.00	29,997,064	100.00
Loans of overseas branches	1,566,827		1,674,366	
	₩ 33,892,185		₩ 31,671,430	

(e) Loan Classification

The asset quality classification for loans and allowance for loan losses as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005 (*1)						
	Normal	Pre-cautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for loan losses
Loan:							
Loans in Won(*2)	₩ 28,494,269	282,530	164,816	28,324	52,587	29,022,526	388,914
Loans in foreign currencies	4,737,186	57,247	16,009	3,367	5,408	4,819,217	53,938
Bills bought in foreign currencies(*3)	3,229,865	3,894	-	909	-	3,234,668	17,505
Advances payments acceptance and guarantees	574	8,830	7,645	-	961	18,010	2,669
Call loans	1,329,649	-	-	-	-	1,329,649	-
Credit card loans and receivables	2,105,584	91,065	-	56,691	7,147	2,260,487	98,863
Privately placed bonds	371,384	-	-	-	-	371,384	1,857
Interbank loans in foreign currencies	385,205	-	-	-	-	385,205	-
	40,653,716	443,566	188,470	89,291	66,103	41,441,146	563,746
Others(*4)	477,874	12,906	34,994	1,797	5,169	532,740	3,249
	₩ 41,131,590	456,472	223,464	91,088	71,272	41,973,886	566,995

*(*1) These balances represent loan amounts after deduction of present value discounts.*
*(*2) Including corporate bills discounted and trade bills discounted.*
*(*3) Including local letter of credit bills brought and exporting bills bought.*
*(*4) Suspense receivables, and others*

(In millions of Won)

	2004 (*1)						
	Normal	Pre-cautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for loan losses
Loans :							
Loans in Won(*2)	₩ 25,589,540	349,508	279,665	37,849	80,177	26,336,739	389,019
Loans in foreign currencies	5,007,950	96,931	51,801	10,149	5,077	5,171,908	95,836
Bills bought in foreign currencies(*3)	3,195,440	22	7,468	-	5	3,202,935	17,476
Advances payments acceptance and guarantees	3,426	9,400	21,033	13,394	4,763	52,016	28,228
Call loans(*4)	794,107	-	-	-	-	794,107	-
Credit card loans and receivables	2,374,100	224,555	85	162,248	13,441	2,774,429	244,989
Privately placed bonds	221,946	-	5,637	1,067	38	228,688	2,809
Interbank loans in foreign currencies	294,156	-	-	-	-	294,156	-
Securities purchased under resale agreements	1,230,000	-	-	-	-	1,230,000	-
	38,710,665	680,416	365,689	224,707	103,501	40,084,978	778,357
Others(*5)	664,901	3,410	43,330	1,793	7,888	721,322	92,871
	₩ 39,375,566	683,826	409,019	226,500	111,389	40,806,300	871,228

*(*1) These balances represent loan amounts after deduction of present value discounts.*
*(*2) Including corporate bills discounted and trade bills discounted.*
*(*3) Including local letter of credit bills brought and exporting bills bought.*
*(*4) Excluding inter-bank reconciliation funds.*
*(*5) Comprising due from banks, suspense receivables, non-performing asset management fund and others.*

(f) Allowance for Loan Losses

Changes in allowance for loan losses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Balance at the beginning of the year	₩ 871,228	987,080
Provision for loan losses	41,955	840,235
Loans charged off	(578,655)	(2,779,106)
Transfer from merger with KEBCS	-	1,478,366
Transfer from repurchase of loans, from KAMCO and others	250,417	380,336
Translation adjustments and others	(5,734)	(21,857)
Change of present value discount	(12,216)	(13,826)
Balance at the end of the year	₩ 566,995	871,228

Ratios of allowance for loan losses to total loans (net of present value discount) as of December 31, 2005, 2004 and 2003 are 1.41%, 2.26% and 2.56%, respectively.

As of December 31, 2005 and December 31, 2004, the Bank's loans, of which the balance had been already charged off without the expiry of the Bank's legal claim rights against borrowers or guarantors, amounted to ₩2,063,689 million and ₩5,094,847 million, respectively.

(g) Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2005, discounted using interest rates of 5.25% to 15.25%, is ₩813,814 million which is less than their nominal value of ₩870,057 million.

The changes in present value discount and net deferred loan fees and costs of the Bank's loans for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31,2005
Allowance for loan losses (Present value discount)	₩ 68,460	-	12,216	56,244
Net deferred loan fees and costs	₩ 1,271	2,335	939	2,667

(h) The scheduled repayments of loans as of December 31, 2005 are as follows:

(In millions of Won)

	Loans in Won (*)	Loans in foreign currencies	Total
Due in less than one year	₩ 23,137,137	3,369,690	26,506,827
Due from one to two years	1,320,252	351,038	1,671,290
Due from two to three years	1,461,597	396,562	1,858,159
Due from three to five years	1,149,846	373,277	1,523,123
Due after five years	2,003,426	329,360	2,332,786
	₩ 29,072,258	4,819,927	33,892,185

(*) Including trade bills discounted and corporate bills discounted.

(i) Loans to Employees

The Bank provides housing loans bearing interest at a rate of 6.00% per annum to employees. The outstanding balance of these housing loan receivables as of December 31, 2005 and December 31, 2004 amounts to ₩45,755 million and ₩47,782 million, respectively.

(6) Fixed Assets

Fixed assets as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Tangible assets:		
Land	₩ 382,871	387,579
Buildings	486,787	459,515
Office facilities held on lease	74,419	61,384
Equipment	573,211	562,516
Construction in-progress	-	351
	1,517,288	1,471,345
Less: accumulated depreciation	663,079	617,575
	854,209	853,770
Intangible assets:		
Development costs, net (primarily software)	82,135	39,933
Others	1,925	2,923
	84,060	42,856
Foreclosed assets:		
Acquisition cost	73	70
	₩ 938,342	896,696

As of December 31, 2005, the domestic branches of the Bank are under renovation for repairs and working condition improvement, and in connection with the renovations, the Bank incurred ₩32,411 million for the year ended December 31, 2005.

As of December 31, 2005, the residual value of fixed assets, which had been fully depreciated and used, amounted to ₩128 million.

As of December 31, 2005, the value of the Bank's domestic land as determined by the tax authorities for property tax assessment purposes amounted to ₩592,298 million (book value ₩382,871million). The officially declared value, which is used for government purpose, is not intended to represent fair value.

As of December 31, 2005, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses with a coverage amounting to ₩450,656 million. The Bank maintains insurance coverage for cars and vehicles against accident loses and liabilities. Office facilities held on lease are also insured for theft and casualty losses.

(7) Other Assets

Other assets as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Guarantee deposits	₩ 482,071	498,721
Account receivable	3,558,573	2,744,995
Accrued income	333,627	270,500
Prepaid expenses	65,864	97,575
Deferred tax assets (note 26)	559	204,450
Derivatives instrument assets (note 20)	496,666	738,364
Suspense receivable	52,442	98,451
Security deposits	16,469	21,514
Domestic exchange settlement	1,164,929	459,871
Loans to trust accounts	-	1,901
Others	42,675	49,552
	₩ 6,213,875	5,185,894

(8) Merchant Banking Account Assets

(a) Merchant banking account assets as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Loans	₩ 905,680	871,560
Cash management account (CMA)	214,740	235,425
Financing lease receivable	2,278	34,489
Operating lease assets	-	26,145
Other assets	11	14,883
	1,122,709	1,182,502
Less: allowance for loan and lease losses	(5,805)	(7,778)
accumulated depreciation of operating lease asset	-	(17,175)
allowance for estimated loss of future sale of operating lease assets	-	(45)
	₩ 1,116,904	1,157,504

(b) Loans

The merchant banking division of the Bank provides discounting of short-term notes maturing in one year or less at the interest rate of 3.78~5.95% per annum.

Loans of the merchant banking division held as of December 31, 2005 and 2004 comprise the following:

(In millions of Won)

	2005	2004
Notes discounted	₩ 872,788	863,623
Factored accounts receivable	32,892	7,937
	₩ 905,680	871,560

(c) Cash Management Accounts

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets are comprised of notes discounted amounting to ₩214,740 million and ₩235,425 million as of December 31, 2005 and 2004, respectively.

(d) Financing Lease Receivables

The estimated future lease payments in aggregate to be received on financing leases as of December 31, 2005 are as follows:

(In millions of Won)

		Amout
January 1, 2006 ~ December 31, 2006	₩	1,617
January 1, 2007 ~ December 31, 2007		661
After January 1, 2008		-
Total lease payments to be received		2,278
Less: Unearned interest income		(128)
	₩	2,150

As of December 31, 2005, financing lease receivables amounting to US$929 thousand are denominated in foreign currencies, and financing lease receivables amounting to ₩1,337 million are denominated in Korean Won.

(e) Asset quality Classification and Related Allowance for Loan and Lease Losses

The asset quality classification and allowance for loan and lease losses of the accounts in the merchant banking division of the Bank as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Classification						Allowance for loan and lease losses
	Normal	Precautionary	Substandard	Doubtful	Loss	Total	
2005:							
Loans(*1)	₩ 1,120,420	-	-	-	-	1,120,420	5,602
Financing lease receivables(*2)	1,194	-	941	15	-	2,150	203
	₩ 1,121,614	-	941	15	-	1,122,570	5,805
2004:							
Loans(*1)	₩ 1,103,215	3,770	-	-	-	1,106,985	7,418
Financing lease receivables(*2)	33,269	-	970	-	-	34,239	360
	₩ 1,136,484	3,770	970	-	-	1,141,224	7,778

*(*1) Including notes discounted in CMA account.*
*(*2) These balances represent loan amount after deduction of present value discounted.*

(f) Other Assets

As of December 31, 2005 and 2004, other assets included in the merchant banking assets comprise the following:

(In millions of Won)

	2005	2004
Deferred gain on foreign currency translation	₩ -	13,261
Accrued interest income	11	1,622
	₩ 11	14,883

(9) Deposits

(a) Deposits as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at 2005.12.31	2005	2004
Deposits in Won:			
Demand deposits	0~0.20	₩ 14,355,708	12,505,326
Savings and time deposits	0~6.50	12,850,662	14,981,796
Mutual installment saving	2.50~3.90	287,600	496,128
		27,493,970	27,983,250
Deposits in foreign currencies:			
Demand deposits	0~1.33	3,221,360	2,751,788
Savings and time deposits	3.42~4.54	4,306,932	4,339,413
		7,528,292	7,091,201
Certificates of deposits	2.40~3.20	2,987,246	3,327,713
		₩ 38,009,508	38,402,164

(b) Deposits from other financial institutions as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005				2004			
	Banks	Domestic	Foreign	Total	Banks	Domestic	Foreign	Total
Deposits in Won:								
Demand deposits	₩ 38,593	538,386	1,290	578,269	21,386	298,289	1,159	320,834
Savings and time deposits	20,000	1,250,244	28,754	1,298,998	25,995	1,724,070	25,711	1,775,776
Certificates of deposits	-	1,654,087	-	1,654,087	-	2,137,416	-	2,137,416
Deposits in foreign Currencies:								
Demand deposits	270,391	90,599	94,859	455,849	74,763	26,193	66,229	167,185
Savings and time deposits	-	197,122	-	197,122	-	917,039	-	917,039
	₩ 328,984	3,730,438	124,903	4,184,325	122,144	5,103,007	93,099	5,318,250

(c) The scheduled maturities of deposits as of December 31, 2005 are as follows:

(In millions of Won)

	Deposit in won	Deposit in foreign currencies	Certificates of deposits	Total
Due less than one year	₩ 24,699,294	7,503,366	2,987,246	35,189,906
Due from one to two years	1,274,406	20,094	-	1,294,500
Due from two to three years	569,050	4,653	-	573,703
Due from three to five years	507,546	179	-	507,725
Due after five years	443,674	-	-	443,674
	₩ 27,493,970	7,528,292	2,987,246	38,009,508

(10) Borrowings

(a) Borrowings as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at 2005.12.31	2005	2004
Borrowings in Won:			
Borrowings from the Bank of Korea	2.00	₩ 1,194,989	1,062,945
Borrowings from Governmental and Public funds	1.50~4.25	249,332	297,889
Borrowings from other banks	1.50~4.55	222,466	116,971
Borrowings from others	2.00~4.90	508,652	501,574
		2,175,439	1,979,379
Borrowings in foreign currencies:			
Short-term borrowings	3.95~5.03	2,236,265	1,803,103
Medium and long-term borrowings	3ML+40BP~6ML+60BP	175,274	374,611
Refinance	3.91~4.62	293,770	156,570
Borrowings from banks for subordinated loans	2.35~2.55	4,804	8,762
Others	0~4.27	743,765	665,089
		3,453,878	3,008,135
Due to Bank of Korea in foreign currencies	0.10~6ML+50BP	5,257	135,721
Securities sold under repurchase agreements	2.30~5.00	734,763	732,110
Bills sold	2.50~4.00	272,289	130,255
Call money	2.55~4.31	98,776	247,838
		₩ 6,740,402	6,233,438

(b) Subordinated borrowings at December 31, 2005 and 2004 are as follows:

(In millions of Won,Thousands of U.S. Dollars)

	Lender	Annual interest rate (%)	2005	2004
Borrowings in foreign currencies	Commerzbank	-	₩ -	36,533
			-	(US$35,000)

(c) As of December 31, 2005, in the normal course of funding activities, the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions (see note 4).

(d) The scheduled maturities of borrowings as of December 31, 2005 are as follows:

(In millions of Won)

	Borrowings in won in	Borrowings foreign currencies	Due to Bank of Korea in foreign currencies	Total
Due less than one year	₩ 1,220,500	3,445,873	5,257	4,671,630
Due from one to two years	50,927	3,894	-	54,821
Due from two to three years	85,346	4,111	-	89,457
Due from three to five years	209,641	-	-	209,641
Due after five years	609,025	-	-	609,025
	₩ 2,175,439	3,453,878	5,257	5,634,574

(11) Debentures

(a) Debentures as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at 2005.12.31		2005	2004
Debentures in Won:				
Debentures	3.50~7.73	₩	3,700,000	4,384,000
Subordinated debentures	4.90~8.00		1,293,130	1,442,504
Hybrid Tier 1	8.50		250,000	250,000
			5,243,130	6,076,504
Discounts on debentures			(8,109)	(13,052)
			5,235,021	6,063,452
Debentures in foreign currencies:				
Debentures	6ML+10BP~14BP		700,033	419,757
Discounts on debentures	3ML+2.00~5.00		(4,350)	(2,428)
			695,683	417,329
		₩	5,930,704	6,480,781

(b) Subordinated debentures as of December 31, 2005 and 2004 are as follows:

(In millions of Won,Thousands of U.S. Dollars)

	Maturity	Interest rate (%) at 2005.12.31		2005	2004
Sold to general public	Feb. 28, 2005 ~ Nov. 28, 2014	4.90~8.00	₩	1,293,130	1,442,504
JPMorgan Chase and Merrill Lynch(*1)	Nov. 18, 2006	3ML+2.00		202,600 (US$200,000)	208,760 (US$200,000)
Citigroup and HSBC(*1)(*2)	June 10, 2015	5.00		294,833 (US$291,050)	-
Credit Suisse (*1)(*3)	June 30, 2010	-		-	210,997 (US$202,143)
			₩	1,790,563	1,862,261

*(*1) The first underwriters.*
*(*2) After June 10, 2010, the optional early redemption right can be exercised.*
*(*3) On June 30, 2005, this was repaid due to exercising the Bank's optional early redemption right.*

Certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Gain and loss on foreign currency transactions amounting to ₩9,067 million and ₩2,220 million, respectively, have been accounted for in connection to such contracts for the year ended December 31, 2005.

(c) As of December 31, 2005, Hybrid Tier 1 bond are as follows:

(In millions of Won)

Type	Maturity (*2)	Interest rate (*3)		Amount
Hybrid Tier 1(*1)	May 28, 2033	8.50%	₩	250,000

*(*1) After 5 years from issuing date, call option can be exercised under the authorization of Governor of Financial Supervisory Service.*
*(*2) After expiration, the bond can be extended under the same terms.*
*(*3) Beginning May 29, 2013, the interest rate increases to 10.0%*

(d) The scheduled maturities of debentures as of December 31, 2005 are as follows:

(In millions of Won)

	Debentures in Won	Debentures in foreign currencies	Total
Due in less than one year	₩ 1,510,626	332,264	1,842,890
Due from one to two years	2,740,000	24,312	2,764,312
Due from two to three years	492,504	48,624	541,128
Due from three to five years	-	-	-
Due after five years	500,000	294,833	794,833
	₩ 5,243,130	700,033	5,943,163

(12) Other Liabilities

Other liabilities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Accrual for retirement and severance benefits (note 14)	₩ 45,143	34,069
Allowance for acceptances and guarantees	40,593	18,982
Due to trust account	523,900	402,909
Foreign exchange remittance pending	247,550	253,448
Account payable	3,608,765	2,701,081
Accrued expenses	617,887	743,694
Unearned income	49,534	46,390
Deferred tax liabilities (note 26)	34,697	-
Deposits for letter of guarantees and others	144,566	139,134
Derivative instrument liabilities (note 20)	652,644	831,130
Suspense receipt accrual	63,037	155,025
Liability for GIRO accounts	103,630	81,960
Agency receipt liability	660,597	564,844
Others	730,069	215,060
	₩ 7,522,612	6,187,726

(13) Merchant Banking Account Liabilities

(a) Borrowings as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at 2005.12.31	2005	2004
Notes payable	2.85~3.87	₩ 806,786	792,667
CMA deposits	2.80~3.50	278,867	262,687
		₩ 1,085,653	1,055,354

Notes payable mature within a maximum of one year from issue date and bear interest at variable rates according to market conditions and note terms.

(b) Other liabilities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Foreign exchange remittance pending	₩ -	8,804
Accrued expenses	711	806
Unearned income	3,717	3,124
	₩ 4,428	12,734

(14) Retirement and Severance Benefits

Retirement and severance benefits as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Balance at the beginning of the year	₩ 123,258	85,739
Provisions for retirement and severance benefits	60,375	54,233
Transfer from KEBCS	-	23,611
Severance payments	(7,247)	(40,071)
Adjustments of foreign exchange transactions	(250)	(254)
	176,136	123,258
Deposits of insurance for retirement and severance benefits	(130,157)	(88,341)
Transfer to the National Pension Fund	(836)	(848)
Balance at the end of the year	₩ 45,143	34,069

(15) Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	In thousands of U.S. dollars	In millions of Won	In thousands of U.S. dollars	In millions of Won
Assets:				
Cash and due from banks	$ 1,058,415	₩ 1,072,175	$ 939,825	₩ 980,989
Securities	1,361,396	1,379,093	1,155,774	1,206,397
Loans and lease assets	9,709,079	9,835,298	9,130,052	9,529,947
	$ 12,128,890	₩ 12,286,566	$ 11,225,651	₩ 11,717,333
Liabilities:				
Deposits	$ 7,431,680	₩ 7,528,292	$ 6,793,640	₩ 7,091,201
Borrowings	3,675,332	3,723,111	3,421,053	3,570,895
Debentures	691,049	700,033	402,143	419,757
Others	244,373	247,550	242,813	253,448
	$ 12,042,434	₩ 12,198,986	$ 10,859,649	₩ 11,335,301

Assets and liabilities of the Bank denominated in other than U.S. Dollars were converted into equivalent U.S. Dollar amounts using the exchange rate prevailing on December 31, 2005 and December 31, 2004.

(16) Asset Revaluation

In accordance with the Asset Revaluation Law, the Bank elected to revalue land, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

(17) Other Statuary Reverses and Accumulated Deficit

(a) Other Statuary Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income taxes as a Japanese legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. In addition, Singapore and Hanoi branches' statuary reserves are included in this reserve amount.

(b) Adjustments to the Beginning Accumulated Deficit

Details of adjustments to the beginning accumulated deficits as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
The beginning accumulated deficit before adjustments	₩	(642,268)	(344,482)
Adjustments:			
Equity method accounting for investment securities in subsidiaries		321	(73)
The beginning accumulated deficit after adjustments	₩	(641,947)	(344,555)

(18) Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2004	Increase	Decrease	Deferred tax adjustment	2005
Discounts on stock issued	₩	(324,854)	-	-	-	(324,854)
Unrealized gain on available-for-sale securities		594,908	1,535,292	(190,456)	(533,430)	1,406,314
Unrealized loss on held-to-maturity securities		-	(1,037)	111	255	(671)
Unrealized gain on Investments in affiliates		32,101	88	(10,269)	(6,028)	15,892
Unrealized loss on Investments in affiliates		(1,456)	-	284	322	(850)
Stock options		7,649	8,531	(1,221)	-	14,959
	₩	308,348	1,542,874	(201,551)	(538,881)	1,110,790

(19) Stock Options

As of December 31, 2005, stock options granted to the Bank's employees and executives are as follows:

(In millions of Won)

Grant date	Stock options granted	Stock options expired to date	Stock options exercised	Stock options outstanding		Exercise price in Won per share	Exercise period
March 25, 2000	784,000	761,500	22,500	-	₩	10,000	2003.03.26~2006.03.25
March 28, 2000(*)	53,369	-	-	53,369		15,927	2003.06.22~2006.03.28
May 18, 2000	400,000	377,500	10,000	12,500		10,000	2003.05.19~2006.05.18
September 14, 2000(*)	74,716	-	-	74,716		15,927	2003.09.15~2006.09.14
March 13, 2001	562,000	15,000	121,000	426,000		5,000	2004.03.14~2007.03.13
March 30, 2002(*)	32,020	24,015	-	8,005		70,715	2005.03.31~2008.03.30
August 26, 2002	725,000	421,850	42,990	260,160		6,300	2005.08.27~2008.08.26
March 31, 2003(*)	101,401	-	-	101,401		13,266	2006.04.01~2009.03.31
September 4, 2003(*)	53,369	-	-	53,369		15,533	2006.09.05~2009.09.04
September 16, 2003	120,000	54,400	-	65,600		5,000	2006.09.17~2009.09.16
February 13, 2004	2,450,000	380,000	-	2,070,000		7,000	2006.02.14~2009.02.13
March 7, 2005	1,435,000	80,000	-	1,355,000		8,800	2007.03.08~2010.03.07
June 29, 2005	200,000	-	-	200,000		9,000	2007.06.30~2010.06.29
	6,990,875	2,114,265	196,490	4,680,120			

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

In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003 were accounted for using minimum value method using the Black-Scholes model. Effective on January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

Grant date	Risk-free interest rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)
March 25, 2000	6.35	6	90.01	0.0
March 28, 2000(*)	6.70	3.25	49.68	0.0
May 18, 2000	6.35	6	90.01	0.0
September 14, 2000(*)	6.70	3	61.29	0.0
March 13, 2001	6.35	6	90.01	0.0
March 30, 2002(*)	6.39	3	63.53	4.4
August 26, 2002	6.35	6	90.01	0.0
March 31, 2003(*)	4.62	3	58.35	0.0
September 4, 2003(*)	4.40	3	50.30	0.0
September 16, 2003	4.54	6	89.81	0.0
February 13, 2004	5.12	5	84.86	0.0
March 7, 2005	4.43	5	76.70	0.0
June 29, 2005	3.89	5	71.85	0.0

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

Changes in stock options during the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Balance at the beginning of the year	₩ 7,649	14
Compensation costs	8,531	6,492
Transfer from merger with KEBCS	-	1,143
Decrease due to stock options exercised	(1,221)	-
Balance at the end of the year	₩ 14,959	7,649

The difference between compensation costs calculated using minimum value method and those calculated using fair value method for the year ended December 31, 2005 is as follows:

(In millions of Won)

	Minimum value method	Fair value method
Total compensation costs	₩ 23,145	24,856
Compensation costs for the year ended December 31, 2005	8,531	8,725
Accumulated compensation costs as of December 31, 2004	7,579	9,071
Compensation costs to be recognized	7,035	7,060

If the Bank applies fair value method in calculating compensation costs, ordinary income, net earnings, ordinary earnings per share and net earning per share for the year ended December 31, 2005 are as follows:

(In millions of Won)

	As reported	Adjustment	Revised
Ordinary income	1,912,637	(194)	1,912,443
Net income	1,929,327	(194)	1,929,133
Ordinary earnings per share	2,966	(1)	2,965
Net earning per share	2,992	(1)	2,991

140,000 shares of stock option were canceled due to the retirement before agreed service period. The number of exercised stock options were 196,000 shares and the difference between market value and exercise price that the Bank paid is ₩1,221 million.

(20) Commitments and Contingencies

(a) Guarantees and Acceptances

The Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. The confirmed Guarantees and acceptances outstanding as of December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Guarantees and acceptances in Won	₩ 747,317	798,429
Guarantees and acceptances in foreign currencies	1,750,625	1,764,396
	₩ 2,497,942	2,562,825

The unconfirmed guarantees and acceptances and endorsed notes with collateral outstanding as of December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Letters of credit issued but not yet drawn	₩ 3,147,784	3,686,975
Other guarantees and acceptance	11,926	14,840
	3,159,710	3,701,815
Endorsed notes with collateral	52,672	94,493
	₩ 3,212,382	3,796,308

The Asset quality classification of the guarantees and acceptances and allowance for acceptances and guarantees as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005						Allowance for Guarantees and Acceptance
	Normal	Precautionary	Substandard	Doubtful	Loss	Total	
Confirmed guarantees and acceptance	₩ 2,447,099	12,671	37,958	204	10	2,497,942	33,068
Unconfirmed guarantees and acceptance(*1)	3,072,430	86,823	446	11	-	3,159,710	7,262
Endorsed notes with collateral(*1)	52,672	-	-	-	-	52,672	263
	₩ 5,572,201	99,494	38,404	215	10	5,710,324	40,593

*(*1) The unconfirmed Guaranteed and acceptances and endorsed notes with collateral are required to accrue allowance for estimated potential losses from 2005.*

(In millions of Won)

	2005						Allowance for Guarantees and Acceptance
	Normal	Precautionary	Substandard	Doubtful	Loss	Total	
Confirmed guarantees and acceptance	₩ 2,498,425	34,943	27,032	1,160	1,265	2,562,825	18,982

The confirmed guarantees and acceptances, excluding guarantees and acceptances in offshore branches, classified by industry as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005		2004	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 1,166,898	49.04	₩ 1,192,874	49.19
Wholesale and retail / service	433,141	18.20	395,435	16.31
Construction	344,414	14.47	350,427	14.45
Financial and insurance	205,111	8.62	207,800	8.57
Telecommunications	11,329	0.48	10,181	0.42
Others	218,503	9.19	268,394	11.06
	2,379,396	100.00	2,425,111	100.00
Acceptance in overseas branches	118,546		137,714	
	₩ 2,497,942		₩ 2,562,825	

The confirmed guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005			2004		
Countries	Thousands of U.S. dollars(*)	Millions of Won	Ratio (%)	Thousands of U.S. dollars(*)	Millions of Won	Ratio (%)
Korea	$ 1,479,684	₩ 1,498,920	85.62	$ 1,489,732	₩ 1,554,982	88.13
France	47,655	48,275	2.76	59,345	61,944	3.51
Germany	37,514	38,002	2.17	22,443	23,426	1.33
U.K.	9,620	9,745	0.56	7,505	7,834	0.44
U.S.A.	33,110	33,540	1.92	27,121	28,309	1.60
Japan	25,232	25,560	1.46	29,537	30,831	1.75
Others	95,344	96,583	5.51	54,675	57,070	3.24
	$ 1,728,159	₩ 1,750,625	100.00	$ 1,690,358	₩ 1,764,396	100.00

(*) Guarantees and acceptances dominated in other foreign currencies were presented at equivalent U.S. dollar amounts using the exchange rates as of the balance sheet dates.

The Bank's loan commitments as of December 31, 2005 and 2004 are as follows :

(In millions of Won)

	2005	2004
Commitments for loans in Won	₩ 31,162,039	605,206
Commitments for foreign currency loans	2,045,095	21,099
Securities purchase commitments in Won	409,033	50,000
Other commitments in foreign currencies	8,993,490	74,632
	₩ 42,609,657	750,937

The Bank accrued allowance for estimated potential losses on commitments considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses. As of December 31,2005 the bank recognized ₩90,781 million of provision for abovementioned commitments. (note 2.(c))

As of December 31, 2005 and 2004, the Bank's loans, of which the balance had been already charged off without the expiry of the Bank's legal claim rights against borrowers or guarantors, amounted to ₩2,063,689 million and ₩5,094,847 million, respectively.

Government bonds sold through its branches as of December 31, 2005 and 2004 amounted to ₩13,878 million and ₩24,484 million, respectively.

Endorsed notes with collateral amount to ₩52,672 million and ₩94,493 million as of December 31, 2005 and 2004, respectively. Endorsed notes without collateral held at the merchant banking account amount to ₩2,073,972 million and ₩1,479,383 million as of December 31, 2005 and 2004, respectively.

The Bank purchased the note forged by the employee of the Kukdong City Gas Co. Ltd and transferred it by endorsement without collateral recognizing as suspense receivables in other assets amounting to ₩32,601 million as of December 31, 2005. The Bank is in litigation for the forged note and recognized ₩32,601 million of other liability related to these lawsuits.

(b) Derivative Financial Instruments

Contracts of derivative financial instruments as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005			2004		
	Trading	Hedging	Total	Trading	Hedging	Total
Foreign currency related contracts						
Forward contracts	₩ 21,706,315	-	21,706,315	16,491,751	-	16,491,751
Future contracts	237,245	-	237,245	162,624	-	162,624
Swap contracts	4,406,534	-	4,406,534	3,128,638	-	3,128,638
Option contracts purchased	1,389,356	-	1,389,356	1,698,416	-	1,698,416
Option contracts sold	2,788,144	-	2,788,144	1,358,540	-	1,358,540
	30,527,594	-	30,527,594	22,839,969	-	22,839,969
Interest rate related contracts						
Future contracts purchased	-	-	-	56,447	-	56,447
Future contracts sold	260,378	-	260,378	1,445,254	-	1,445,254
Swap contracts	10,032,918	433,564	10,466,482	7,495,779	104,380	7,600,159
Option contracts purchased	-	-	-	140,913	-	140,913
Option contracts sold	-	-	-	154,482	-	154,482
	10,293,296	433,564	10,726,860	9,292,875	104,380	9,397,255
Index option related contracts						
KOSPI 200 futures	24,386	-	24,386	17,964	-	17,964
Option contracts purchased	172,576	-	172,576	-	-	-
Option contracts sold	1,013,858	-	1,013,858	39,104	-	39,104
	1,210,820	-	1,210,820	57,068	-	57,068
	₩ 42,031,710	433,564	42,465,274	32,189,912	104,380	32,294,292

Gain or loss on valuation of derivative for the year ended December 31, 2005 and the related accumulated gain or loss on them are as follows:

(In millions of Won)

	Valuation gains or losses (I/S)(*1)						Valuation gains or losses (B/S)	
	Trading		Hedging		Total			
	Gains	Losses	Gains	Loss	Gains	Losses	Assets	Liabilities
Foreign currency related contracts								
Forward contracts	₩ 210,144	151,493	-	-	210,144	151,493	228,681	346,571
Future contracts purchased	-	-	-	-	-	-	-	-
Swap contracts	34,153	44,402	-	-	34,153	44,402	171,230	94,233
Option contracts purchased	-	18,557	-	-	-	18,557	15,773	-
Option contracts sold	22,179	-	-	-	22,179	-	-	11,237
	266,476	214,452	-	-	266,476	214,452	415,684	452,041
Interest rate related contracts								
Swap contracts	23,100	22,582	5,876	10,119	28,976	32,701	74,648	95,767
Option contracts purchased	-	88	-	-	-	88	-	-
Option contracts sold	348	-	-	-	348	-	-	-
	23,448	22,670	5,876	10,119	29,324	32,789	74,648	95,767
Index option related contracts								
Option contracts purchased	12,564	13,479	-	-	12,564	13,479	6,334	-
Option contracts sold	-	-	-	-	-	-	-	104,836
	12,564	13,479	-	-	12,564	13,479	6,334	104,836
	₩ 302,488	250,601	5,876	10,119	308,364	260,720	496,666	652,644

*(*1) Included in gain and loss on foreign currency transactions which is treated as other operating income and expenses.*

Gain or loss on valuation of derivative for the year ended December 31, 2004 and the related accumulated gain or loss on them are as follows:

(In millions of Won)

	Valuation gains or losses (I/S)(*1)						Valuation gains or losses (B/S)	
	Trading		Hedging		Total			
	Gains	Losses	Gains	Loss	Gains	Losses	Assets	Liabilities
Foreign currency related contracts								
Forward contracts	₩ 250,206	431,064	-	-	250,206	431,064	391,392	555,581
Swap contracts	194,297	110,201	-	-	194,297	110,201	215,632	128,386
Option contracts purchased	30,289	-	-	-	30,289	-	34,330	-
Option contracts sold	-	27,793	-	-	-	27,793	-	33,416
	474,792	569,058	-	-	474,792	569,058	641,354	717,383
Interest rate related contracts								
Swap contracts	56,742	71,117	1,951	7,692	58,693	78,809	96,922	111,917
Option contracts purchased	-	423	-	-	-	423	88	-
Option contracts sold	1,276	-	-	-	1,276	-	-	348
	58,018	71,540	1,951	7,692	59,969	79,232	97,010	112,265
Index option related contracts								
Option contracts purchased	7,204	-	-	-	7,204	-	-	-
Option contracts sold	-	1,600	-	-	-	1,600	-	1,482
	7,204	1,600	-	-	7,204	1,600	-	1,482
	₩ 540,014	642,198	1,951	7,692	541,965	649,890	738,364	831,130

*(*1) Included in gain and loss on foreign currency transactions which is treated as other operating income and expenses.*

The above transactions with respect to securities and bonds are for the purpose to hedge risks from changes in exchange rates or interest rates, and to generate profits from trading derivative instruments.

Outstanding hedging transactions above include both derivative transactions accounted for using hedge accounting treatment and those held for the purpose of hedging risk. As of December 31, 2005, hedged items consist of securities and bonds, and risks from change in fair values are hedged by interest rate swaps. Based on the valuation of the hedged items under fair value hedge accounting, gains and losses on valuation of securities amounting to ₩1,053 million and ₩3,656 million, respectively, and gains and losses on valuation of bonds amounting to ₩9,067 million and ₩2,220 million, respectively, have been accounted for as gains and losses on foreign currency transactions the year ended December 31, 2005.

(c) Litigation

The Bank is in litigation as the plaintiff or the defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩404,855 million (4,615 cases) and ₩66,102 million (147 cases), respectively, as of December 31, 2005. The Bank recognized ₩4,767 million of other liability related to these lawsuits. The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations.

Also the Bank had floating rate bonds of US$7,000 thousand (book value US$3,500 thousand) issued by Pacific Elephant Fund, and made a guarantee-payment amounting to US$10,112 thousand (US$10,112 thousand of provisions) in association with the default of Pacific Raninbow fund for which the Bank has provided guarantee. The Bank brought a case to court in relation to the breach of performance of commitment against the Dongbuanam Semiconductor. On October 27, 2005 compulsory arbitration by court was determined. According to the arbitration, Dongbuanam semiconductor Inc. is to repay US$4,382 thousand with unequal installment on floating rate bond issued by Pacific Elephant Fund for 16 years from 2005 to 2020, and the Bank recognized aforementioned amount as receivables in foreign currency. The difference between aforementioned amount and the book value amounting to US$882 thousand was accounted for as recovery of impairment losses on available-for-sales securities. Payment of US$14,369 thousand on behalf of the Pacific Rainbow Fund will be repaid by Dongbuanam semiconductor Inc. with an unequal installment for 16 years from 2005 to 2020. Above repayment related to Pacific Elephant Fund is to be distributed to Shinhan merchant bank, Choongang mernchant bank and the Bank at the rate of amount of principal according by mutual agreement on January 10, 2006. The Bank recognized US$7,138 thousand, distributed amount at the rate of amount of principal, as account receivable in foreign currency, and reversed US$7,138 thousand of related provision. Also the guarantee-payment amounting to US$2,974 thousand which cannot be repaid by Dongbuanam semiconductor Inc. was charged off.

As of December 31, 2005 the Bank recognized US$11,315 thousand of account receivable in foreign currency excluding US$205 thousand of repayment during 2005 and US$2,009 thousand of provision related to aforementioned receivables. The actual loss may differ from the provision for account receivable losses set by the Bank.

(d) Asset Backed Securitization

On March 30, 2001, the Bank sold certain non-performing loans of leasing companies amounting to ₩589,175 million to a Special Purpose Company ("5th SPC") and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively.

On June 29, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company ("6th SPC") and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank provided deposits equivalent to ₩40,800 million as collateral to Kookmin Bank.

On November 29, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company ("7th SPC") and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the written contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets or when the debtor delayed the payment of the principal for more than six months. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within seven business days from written notification.

On December 9, 2003, the Bank sold certain non-performing loans amounting to ₩155,391 million to a Special Purpose Company ("8th SPC") and received ₩60,000 million and ₩59,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On June 17, 2004, the Bank sold certain non-performing loans amounting to ₩206,442 million to a Special Purpose Company ("9th SPC") and received ₩80,000 million and ₩70,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On September 17, 2004, the Bank sold certain non-performing loans amounting to ₩147,464 million to a Special Purpose Company ("10th SPC") and received ₩55,000 million and ₩45,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On June 13, 2005, the Bank sold certain non-performing loans amounting to ₩207,886 million to a Special Purpose Company ("11th SPC") and received ₩80,000 million and ₩65,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩6,619 million was recognized as a gain on disposal of loans for the year ended December 31, 2005.

On November 28, 2005, the Bank sold certain non-performing loans amounting to ₩178,587 million to a Special Purpose Company ("12th SPC") and received ₩70,000 million and ₩66,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩12,117 million was recognized as a loss on disposal of loans for the year ended December 31, 2005.

According to the business transfer agreement (the "Agreement) of 8th, 9th, 10th, 11th and 12th SPC, the transferee and the trustee could claim the performance of transferor's responsibility on the collateral pursuant to the contract amount when (1) the securitized assets are considered unqualified as of the transfer or confirmed date under the conditions of the written contract, (2) it was determined that senior rights on the collaterals stated in the register book were not identified at the time of the due diligence on the securitized assets, or (3) additional senior rights are identified according to the laws or regulations omitted from the due diligence report (only if the laws or regulation were in effect prior to the confirmation date of the securitized assets). The Bank is obligated to perform its responsibility on the collateral within three business days from the date the request is made by transferee or trustee.

The Bank's potential exposures in relation to the indemnification on the securities assets for 5th, 6th, and 7th SPC are 27%, 34% and 36% of the total proceeds, respectively which is equivalent to US$84,000 thousand (₩85,092 million), ₩130,000 million, and ₩26,000 million, respectively.

(e) Loans Sold under Repurchase Agreements

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

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

As of December 31, 2005, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩201,292 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

(f) Debt to Equity Swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including payment guarantees) and available-for-sale securities including debt-to-equity securities with respect to Hynix Semiconductor Inc. ("Hynix") amount to ₩178,886 million and ₩1,426,115 million, respectively, as of December 31, 2005. As of December 31, 2005, the Bank's loan for Hynix is classified as normal.

On April 21, 2005, Hynix and the Creditors' Council agreed to the condition that includes a certain amount of external financing and a new agreement to satisfy for an early termination of Joint Management with the Creditors' Council. Hynix fulfilled the condition and terminated Joint Management with the Creditors' Council on July 12, 2005 after achieving more than ₩1.0 trillion of external financing and the new agreement on which Hynix is required to have prior discussions with Creditors' Council on management appointment, issues related with M&A, and other significant management decisions which may have great influence to Hynix. In addition, the Bank sold 18,416,307 shares of Hynix, which is permitted to sale in over-the-counter market by Financial institution creditors committee, at ₩350,146 million on October 26, 2005.

(g) Loans to Workout Companies

As of December 31, 2005, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩965,300 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank. No adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

(h) Debt to Equity Swap of SK Networks Co., Ltd.

As of December 31, 2005, the Bank has loans of ₩171,423 million and available-for-sale securities of ₩95,484 million with respect to SK Networks Co., Ltd. and set allowance for loan losses and payment guarantees of ₩16,780 million in association with these loans. The actual loss may differ from the allowance for loan losses and impairment loss set by the Bank.

(i) Commitments Related to Credit Card Business

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

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

(j) Asset Backed Securitization Related to Credit Card Business

Credit card receivables from cardholders provided to SPCs as of December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Assets provided	Transferred (entrusted) amount	Date of transfer (entrusted)	Remaining balance
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	Cash advances and revolving purchases	₩ 403,804	2003.01.13	₩ 184,375

The Bank is responsible for possible delinquencies in the underlined assets of the SPCs and additional assets should be provided to the SPCs if the remaining balances of the underlined assets fall below the stipulated amounts.

Additional assets which had been transferred or entrusted to the SPCs up to December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2003.5.16~2004.7.30	8	125,874	₩ 301,348	Trust type

Assets which had been extracted from SPC and transferred back to or repurchased by the Bank up to December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2004.3.29~2005.4.11	3	104,514	₩ 158,739	Written-off/ overdue loan

Also, profits from the SPC 7, net of the expenses of the Trust for each settlement period, are accounted for as interest income by the Bank.

The senior bonds and the subordinated bonds of the SPC 7 th , amounting to ₩100,000 million and ₩50,500 million respectively, were repaid on January 23, 2006, after the balance sheet date. The Bank expired the asset backed securitization contracts by recovering the trusted assets amounting to ₩187,362 million from the Kookmin Bank and the SPC 7 th is in liquidation.

(k) Indemnification Obligations regarding the Share Subscription Agreement by and between the Bank and the LSF-KEB Holdings, SCA

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

Duration of Indemnification Obligations are as follows:

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

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

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

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

*(*1) Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank's representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank's covenants or agreements in the Share Subscription Agreement.*
*(*2) Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.*
*(*3) Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.*

(21) The equity linked special incentive

On July 15, 2005, the Bank granted the equity linked special incentive to employees for the purpose of motivation to improve a long-term result. Above incentive is one time incentive which is linked with the Bank's stock price and net asset per share, and can be eligible for the incentive for three years after two years from the effective date. The Bank recognized ₩8,947 million as compensation expense for the accomplishment over the long period related to above bonus and ₩8,943 million is recognized as long-term payables.

(22) Fees and Commissions

Fees and commissions for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Commissions received	₩	392,407	417,896
Guarantee fees		19,871	23,675
Early termination penalty fees (note 32)		6	19
Others		116	103
	₩	412,400	441,693

(23) Operating Revenue of Merchant Banking Account

Operating revenue of merchant banking account for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Interest income	₩ 43,515	63,387
Fees and commissions income	432	777
Reversal of allowance for loan loss	1,973	242
Others	17,080	8,399
	₩ 63,000	72,805

(24) Commission Charges

Commission charges for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Service fees	₩ 66,883	38,605
Others	141,876	164,311
	₩ 208,759	202,916

(25) Operating Expenses of Merchant Banking Accounts

Operating expenses of merchant banking accounts for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Interest expense	₩ 35,793	47,416
Others	13,719	4,627
	₩ 49,512	52,043

(26) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Salaries	₩ 431,264	400,884
Employee benefits	174,172	100,149
Provision for retirement and severance benefits	60,375	54,233
Depreciation	95,147	104,551
Amortization	19,641	9,147
Tax and dues	37,665	32,465
Rent	35,159	34,643
Entertainment	13,094	10,332
Advertising	33,011	17,598
Others	156,147	137,248
	₩ 1,055,675	901,250

(27) Income Taxes

(a) The Bank is subject to a number of income taxes based on taxable earnings which result in the following normal tax rates:

Taxable earnings	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

Effective in December 2003, the Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%. The current income tax expenses represent income taxes paid by overseas branches.

(b) The components of income tax expense (benefit) for the years ended December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Current	₩ 6,352	9,451
Change in deferred taxes due to temporary differences	(166,143)	-
Change in deferred taxes due to loss carry forward	(134,410)	-
Income taxes directly applied to shareholders' equity	-	-
	₩ (294,201)	9,451

(c) Details on adjustments for certain differences between amounts reported for financial accounting and income tax purposes for the year ended for December 31, 2005 and 2004 are as follows,

(In millions of Won)

	2005		2004	
	Temporary differences	Not temporary differences	Temporary differences	Not temporary differences
Inclusion in gross revenue and exclusion from loss				
Allowance for guarantees	₩ 40,676	-	₩ 18,982	-
Interest not recognized in prior year	100,561	-	161,874	-
Valuation of trading securities	460,630	-	605,979	-
Valuation of available-for-sales securities	28,477	-	37,558	-
Valuation of derivatives instrument	42,285	-	1,030,929	-
Other allowance for possible losses	236,673	-	68,368	-
Taxes and dues	-	-	-	9,451
Others	116,829	21,703	26,649	211,657
	1,026,131	21,703	1,950,339	221,108
Inclusion to loss and exclusion from gross revenue				
Allowance for guarantees in prior year	18,982	-	54,200	-
Overaccrued allowance for loan losses in prior year	-	-	1,774,709	-
Interest not recognized	114,307	-	100,561	-
Valuation of securities	736,063	-	953,327	-
Valuation of Held-to-maturities	38,650	-	19,733	-
Valuation of derivatives instrument	-	-	944,720	-
Debt-to-equity securities converted in prior year	179,120	-	14,747	-
Present value discount	8,443	-	11,401	-
Dividend on securities	-	4,421	-	2,431
Gains from liabilities exempted	-	-	-	16,174
Taxes and dues	-	294,201	-	-
Others	114,372	7,017	152,808	7,923
	₩ 1,209,937	305,639	₩ 4,026,206	26,528

(d) Details on deferred tax asset and liabilities and income taxes directly applied to shareholders' equity are as follows,

(In millions of Won)

	Amount	Income Taxes	Deferred tax assets and liabilities
Valuation of available-for-sales securities	₩ 1,939,744	-	(533,430)
Valuation of held-to-maturity securities	(926)	-	255
Unrealized gains on investment in affiliates	21,920	-	(6,028)
Unrealized loss on investment in affiliates	(1,172)	-	322
	₩ 1,959,566	-	(538,881)

(e) The changes in temporary differences, deferred tax assets and deferred tax liabilities are as follows.

(In millions of Won)

	Temporary Diffreences					Deferred tax assets (liabilities)				
	Jan.1. 2005 (*1)	Translation adjustment	Increase	Decrease	Dec.31. 2005	Jan.1. 2005	Translation adjustment	Increase	Decrease	Dec.31. 2005
Valuation of Securities	₩ 733,067	2,994	460,630	736,061	460,630	201,593	824	126,673	202,417	126,673
Valuation losses of										
Held-to-maturity securities	44,259	(367)	22,974	30,321	36,545	12,171	(101)	6,318	8,338	10,050
Valuation gains of										
Held-to-maturity securities	(11,499)	41	(8,330)	(5,503)	(14,285)	(3,162)	11	(2,290)	(1,513)	(3,928)
Interest not recognized	(100,561)	-	(114,307)	(100,561)	(114,307)	(27,654)	-	(31,434)	(27,654)	(31,434)
Allowance for guarantees										
and acceptance	18,982	-	40,676	18,982	40,676	5,220	-	11,186	5,220	11,186
Present Value discount	63,116	-	-	8,443	54,673	17,357	-	-	2,322	15,035
Valuation of derivatives	108,367	-	150,652	108,367	150,652	29,801	-	41,429	29,801	41,429
Gain from trading of derivatives	(514)	-	(1,504)	(514)	(1,504)	(141)	-	(414)	(141)	(414)
Loans charged off	453,463	-	-	179,120	274,343	124,702	-	-	49,258	75,444
Deferred tax asset										
(foreign branches)	(531)	-	-	(531)	-	(146)	-	-	(146)	-
Deferred loss foreign currency										
translation	(3,112)	-	-	(3,112)	-	(856)	-	-	(856)	-
Others	221,784	-	349,300	112,824	458,260	60,991	-	96,058	31,027	126,022
Valuation gains of securities	(2,039,334)	-	-	-	(2,039,334)	(560,817)	-	-	-	(560,817)
Valuation losses of securities	79,768	-	-	-	79,768	21,936	-	-	-	21,936
	(432,745)	2,668	900,091	1,083,897	(613,883)	(119,005)	734	247,526	298,073	(168,818)
Loss carry-forward	1,925,109	-	-	1,461,584	463,525	529,405	-	-	401,936	127,469
Tax deduction	-	-	-	-	-	6,941	-	-	-	6,941
							Total deferred tax liabilities			(34,408)
							Deferred tax assets (foreign branches)			270
							Set off amount			(34,138)
							Deferred tax assets as of 31, Dec, 2005 (*2)			559
							Deferred tax liabilities as of 31, Dec, 2005			(34,697)

*(*1) This amount included additional retention resulted from tax adjustment after appropriation of prior preiod's financial statements*

*(*2) This amount was not set off with deferred tax libilities because it was related with foreign branches and was different from others in tax authority.*

(f) The Bank expected deductible temporary differences (including the carry-forward of unused tax losses) could be utilized by sufficient taxable temporary differences and future taxable income in the same period. Accordingly, the Bank recognized a tax benefit in amount of ₩300,553 million which was reflected by changes of temporary differences including unrecognized deferred tax assets till 2004.

(g) Change in Accounting Policy

Pursuant to SKAS No. 16 "Income Taxes" , effective January 1, 2005, deferred taxes are recognized on the temporary differences related to unrealized gains or losses on investment securities that are reported as separate component of capital adjustment. As a result of such change, capital adjustment decreased by ₩538,881 million and deferred assets and liabilities increased by ₩577 million and ₩539,458 million, respectively. These changes did not have any impact on the reported net income and prior year's financial statements were not restated by SKAS No. 16 "Income Taxes."

(h) Expiration dates allowed for tax loss carry forwards in accordance with Korean corporate income tax law to reduce the future taxable income are as follows:

(In millions of Won)

Year incurred		Balance of December 31,2004	Deduction	Balance of December 31,2005	Expiration
2000	₩	712,269	(712,269)	-	2005
2001		75,318	(75,318)	-	2006
2004		1,137,522	(673,997)	463,525	2009
	₩	1,925,109	(1,461,584)	463,525	

(28) Earnings Per Share and Ordinary Earnings Per Share

Basic earnings per share and ordinary earnings per share for the years ended December 31, 2005 and 2004 are calculated as follows:

(a) Earnings Per Share

(In millions of Won)

		2005	2004
Net income	₩	1,929,327	522,067
Net income allocated to common stock		1,929,327	522,067
Weighted average number of common shares outstanding (in share)		644,906,826	643,939,890
Basic net earning per share (in Won)	₩	2,992	811

(b) Basic Ordinary Earnings Per Share

(In millions of Won)

		2005	2004
Net income	₩	1,929,327	522,067
Extraordinary gain		(16,690)	(17,675)
Ordinary income allocated to common stock		1,912,637	504,392
Weighted average number of common shares outstanding (in shares)		644,906,826	643,939,890
Basic ordinary earning per share (in Won)	₩	2,966	783

Diluted earnings per shares and diluted ordinary earnings per share for the years ended December 31, 2005 and 2004 are calculated as follows:

(c) Diluted Earnings Per Share

(In millions of Won)

	2005	2004
Net income allocated to common stock	₩ 1,929,327	522,067
Compensation expense associated with stock options	100	-
Diluted net income	1,929,427	522,067
Weighted average number of common shares before diluted (in shares)	644,906,826	643,939,890
Dilutive shares	346,625	143,322
Diluted weighted average number of common shares outstanding (in shares)	645,253,451	644,083,212
Diluted earnings per share (in Won)	₩ 2,990	811

(d) Diluted Ordinary Earnings Per Share

(In millions of Won)

	2005	2004
Diluted net income	₩ 1,929,427	522,067
Extraordinary gain	(16,690)	(17,675)
Diluted ordinary income	1,912,737	504,392
Weighted average number of common shares before diluted (in shares)	644,906,826	643,939,890
Dilutive shares	346,625	143,322
Diluted weighted average number of common shares outstanding (in shares)	645,253,451	644,083,212
Diluted ordinary earning per share (in Won)	₩ 2,964	783

(e) Potential common share information as of December 31, 2005 is as follows:

	Exercise period	Number of common share to be issued upon conversion
Stock options	From March 26, 2003 to June 29, 2010	4,680,120

(29) Statements of Cash Flows

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Cash on hand	₩ 1,658,212	1,507,374
Deposits in Won	412,117	336,238
Deposits in foreign currencies	810,369	740,581
Marketable securities	170,311	9,331
	₩ 3,051,009	2,593,524

Significant non-cash transactions for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Decrease in loans by charge-off	₩ 578,655	2,779,106
Gain/loss on investment securities (capital adjustment)	810,580	289,195
Domestic exchange settlement	3,402,976	2,507,072
Transfer from the merger with KEBCS	-	2,951,095

(30) Related Party Transactions

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2005 and related account balances as of December 31, 2005 are summarized as follows:

(In millions of Won)

	KEBA	KEBOC	KEBC	KEBDAG	KEBD	KEBFC	Trust	Others	Total
Assets:									
Due from banks									
in foreign currency	₩ -	851	-	2,126	1,047	-	-	-	4,024
Loans in foreign currency	-	-	40,730	470	4,865	-	-	-	46,065
Loans in Won	-	-	24,500	-	-	5,000	-	-	29,500
Others	47,554	-	352	81,528	73,331	-	-	152,680	355,445
	₩ 47,554	851	65,582	84,124	79,243	5,000	-	152,680	435,034
Liabilities:									
Deposits in Won	₩ -	-	42	-	-	15	-	16	73
Deposits in foreign currency	-	-	456	555	220	2,688	-	2,899	6,818
Borrowings in foreign currency	34,851	-	-	54,807	-	-	-	14,984	104,642
Others	-	-	2,025	6,937	38,873	4	179,581	1,695	229,115
	₩ 34,851	-	2,523	62,299	39,093	2,707	179,581	19,594	340,648
Revenues:									
Interest income in Won	₩ -	-	1,091	-	-	290	-	21	1,402
Interest income in foreign currency	271	4	2,777	2,505	2,669	-	-	6,035	14,261
Fees and commissions	372	-	-	2,614	409	677	-	-	4,072
Others	-	-	143	274	-	126	9,908	55	10,506
	₩ 643	4	4,011	5,393	3,078	1,093	9,908	6,111	30,241
Expenses:									
Interest expenses in foreign currency	₩ 459	14	7	3,893	910	126	-	449	5,858
Commission charges in won	-	-	-	-	-	698	-	2,373	3,071
Commission charges in foreign currency	-	-	-	232	-	817	-	-	1,049
Others	-	-	925	-	-	-	1,999	15	2,939
	₩ 459	14	932	4,125	910	1,641	1,999	2,837	12,917

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2004 and related account balances as of December 31, 2004 are summarized as follows:

(In millions of Won)

	KEBA	KEBOC	KEBIT	KEBC	KEBDAG	KEBD	KEBFC	Trust	Others	Total
Assets:										
Due from banks										
in foreign currency	₩ 4,425	398	-	-	4,203	7,770	-	-	-	16,796
Loans in foreign currency	10,846	626	-	40,041	78,051	37,624	-	-	167,008	334,196
Loans in Won	-	-	-	4,200	-	-	5,000	-	335	9,535
Others	49,764	-	-	167	443	38,621	-	1,907	5,428	96,330
	₩ 65,035	1,024	-	44,408	82,697	84,015	5,000	1,907	172,771	456,857
Liabilities:										
Deposits in Won	₩ -	-	9,193	494	-	-	30	-	-	9,717
Deposits in foreign currency	-	-	-	-	982	310	5,026	-	2,252	8,570
Borrowings in foreign currency	61,593	82	-	-	151,075	455	-	-	-	213,205
Others	-	-	146	2,026	28,422	44,883	4	97,236	1,312	174,029
	₩ 61,593	82	9,339	2,520	180,479	45,648	5,060	97,236	3,564	405,521
Revenues:										
Interest income in Won	₩ -	-	-	1,060	-	-	311	383	17	1,771
Interest income in foreign currency	31	22	-	978	1,506	1,359	-	-	2,564	6,460
Fees and commissions	-	-	-	-	-	-	638	14,428	-	15,066
Others	-	-	-	146	-	-	-	-	57	203
	₩ 31	22	-	2,184	1,506	1,359	949	14,811	2,638	23,500
Expenses:										
Interest expenses in foreign currency	₩ -	-	960	1	-	-	9	1,707	-	2,677
Commission charges in won	629	16	-	-	3,471	286	-	-	-	4,402
Commission charges in foreign currency	-	-	-	-	206	-	1,481	-	3,259	4,946
Others	-	-	-	-	-	-	-	-	-	-
	₩ 629	16	960	1	3,677	286	1,490	1,707	3,259	12,025

(31) Assets and Liabilities Bearing Interest

Assets and liabilities bearing interest income and interest expense for the year ended December 31, 2005 are as follows:

(In millions of Won)

		Average balance	Interest income and expenses	Average annual interest rate
Assets:				
Due from banks (*1)	₩	1,023,126	25,976	2.54%
Securities (*2)		11,160,437	450,898	4.04%
Loans (*3)		39,879,579	2,768,942	6.94%
	₩	52,063,142	3,245,816	6.23%
Liabilities:				
Deposits	₩	38,338,817	935,327	2.44%
Borrowings		7,356,515	209,208	2.84%
Debentures		5,853,405	333,993	5.71%
	₩	51,548,737	1,478,528	2.87%

*(*1) The reserve deposit with the Bank of Korea and due from the Bank of Korea in foreign currencies were excluded.*
*(*2) Equity securities and beneficiary certificates were excluded.*
*(*3) Loans for debt-to-equity swap were excluded.*

Assets and liabilities bearing interest income and interest expenses for the year ended December 31, 2004 are as follows:

(In millions of Won)

		Average balance	Interest income and expenses	Average annual interest rate
Assets:				
Due from banks (*1)	₩	1,483,699	23,211	1.56%
Securities (*2)		10,738,396	521,290	4.85%
Loans (*3)		40,738,010	2,791,603	6.85%
	₩	52,960,105	3,336,104	6.29%
Liabilities:				
Deposits	₩	40,828,716	1,036,313	2.54%
Borrowings		6,511,210	157,174	2.41%
Debentures		6,154,669	431,456	7.01%
	₩	53,494,595	1,624,943	3.04%

*(*1) The reserve deposit with the Bank of Korea and due from the Bank of Korea in foreign currencies were excluded.*
*(*2) Equity securities were excluded.*
*(*3) Loans for debt-to-equity swap were excluded.*

(32) Operation Performance of Trust Accounts

The significant financial information relating to trust accounts for the years ended December 31, 2005 and 2004 are as follows.

(In millions of Won)

		2005	2004
Trust commissions			
Trust fees for monetary trusts	₩	19,935	23,526
Trust fees for securities investment trusts		4,777	4,156
	₩	24,712	27,682
Commissions received from early termination of commodities in trust account	₩	6	19

(33) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Salaries	₩	431,264	400,884
Employee benefits		174,172	100,149
Provision for retirement and severance benefits		60,375	54,233
Severance for early retirements		3,151	89,592
Depreciation		95,147	104,551
Amortization		19,641	9,147
Taxes and dues		37,665	32,465
Rent		35,159	34,643
	₩	856,574	825,664

(34) Merger with Korea Exchange Bank Credit Service

Prior to February 28, 2004, the Bank was the largest shareholder of KEBCS. Specifically, the Bank owned 43,838,938 shares of KEBCS amounting to 68.6% of its total equity. On February 28, 2004, the Bank acquired all other shares of KEBCS. The Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders list as of February 28, 2004, according to the merger agreement. The total number of shares distributed to such KEBCS shareholders amounted to 5,981,895 shares.

Since this acquisition fell under the parent-subsidiary type, the assets and liabilities of KEBCS were transferred based on the book value as of February 28, 2004. The net loss incurred by KEBCS prior to the acquisition amounting to ₩111,505 million has been accounted for as loss from valuation using equity method by the Bank. The buy out of the minority shareholders' amounting to ₩35,445 million was reflected to the accumulated deficit in 2004. The par value of common shares of the Bank was ₩29,909 million and reflected as a capital adjustment.

KEBCS was initially established on May 19, 1988, in accordance with Credit Specialized Finance Business Act, as Korea Exchange Bank Credit Card Co., Ltd. with the contribution from the Bank with an aim to formulate a credit based society, provide convenient financial service for customers and further promote the domestic economic development. The name of Company was changed to KEBCS on January 1, 1992, and its core business - credit card issuance, usage, and payment service - was extended to installment finance service through the merger with Korea Exchange Bank Installment Finance Co., Ltd. on January 1, 1999. KEBCS was listed on Korea Stock Exchange on December 21, 2001.

Total assets and liabilities of KEBCS as of February 28, 2004 were ₩3,063,203 million and ₩3,982,986 million, respectively.

(35) Results of Operations for the 4th Quarters

The results of operations for the 4 th quarters of the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Operating revenue	₩	1,648,349	2,268,698
Operating expenses		1,485,458	2,189,878
Operating income		162,891	78,820
Non-operating income		368,604	107,372
Non-operating expenses		87,262	70,011
Net income		759,876	132,505
Earnings per share in Won	₩	1,178	205

INTERNAL ACCOUNTING CONTROL SYSTEM REVIEW REPORT

English translation of a Report Originally Issued in Korean

Representative
Korea Exchange Bank:

We have reviewed the report of management's assessment of internal accounting control system(IACS) of Korea Exchange Bank (the Bank) as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the External Audit Law) of the Republic of Korea, the Bank's management is responsible for assessing the design and operation of its IACS.
Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking up on the operating status of the Bank's IACS. We did not perform an audit of the Bank's IACS and accordingly, we do not express an audit opinion.

Based on our review, no material weakness in the design or operation of the Bank's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Bank's IACS in existence as of December 31, 2005. We did not review the Bank's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS become effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

KPMG Samjong Accounting Corp.

Seoul, Korea
January 26, 2006

Notice to Readers
This report is annexed in relation to the audit of the financial statements as of December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank (the "Bank") and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won. These consolidated 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and subsidiaries as of December 31, 2005 and 2004, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended in conformity with accounting principles generally accepted of the Republic of Korea.

The accompanying consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been translated into United States dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 3(b) to the consolidated financial statements.

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

As discussed in note 3(a) to the accompanying consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated 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 consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As discussed in note 19(f) to the accompanying consolidated financial statements, the Bank's outstanding loans (including payment guarantees) and available-for-sale securities with respect to Hynix Semiconductor Inc. ("Hynix") amount to ₩178,886 million and ₩1,426,115 million, respectively as of December 31, 2005 and the loans are classified as the normal according to the loan classification. As a result, the joint management agreement was terminated on July 12, 2005. In addition, the Bank sold 18,416,307 shares of Hynix, which is permitted to sale in over-the-counter market by Financial Institution Creditors Committee, at ₩350,146 million on October 26, 2005. KEB Capital Co.Ltd., the Bank's consolidated subsidiary, sold 681,000 shares of Hynix at ₩12,942 million on October 26, 2005.

As discussed in note 5(f) to the accompanying consolidated financial statements, on February 18, 2005, the Bank sold whole shares (2,760 thousand shares) of KEB Commerz Investment Trust Management Co., Ltd., a domestic subsidiary of the Bank, to Landmark Investment Trust Management Co., Ltd. for ₩28,043 million.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 17, 2006

This report is effective as of February 17, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	In millions of Won,except share data			In thousands of U.S Dollars,except share data		
		2005	2004		2005	2004
Assets						
Cash and due from banks (notes 4 and 27)	₩	3,123,260	2,789,231	$	3,083,179	2,753,436
Securities (note 5)		13,339,115	12,983,037		13,167,932	12,816,423
Loans, less allowance for loan losses of ₩598,422 in 2005 and ₩912,467 in 2004, less net deferred loan fees and costs of ₩2,667 in 2005 and ₩1,271 in 2004 (notes 6 and 27)		42,885,394	41,169,228		42,335,038	40,640,896
Fixed assets, less accumulated depreciation of ₩691,004 in 2005 and ₩716,223 in 2004 (notes 8 and 15)		973,359	947,334		960,868	935,177
Other assets (notes 9 and 27)		6,262,904	5,241,209		6,182,531	5,173,948
Total assets	₩	66,584,032	63,130,039	$	65,729,548	62,319,880
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits (notes 10 and 27)	₩	40,738,073	41,256,864	$	40,215,274	40,727,408
Borrowings (notes 11 and 27)		6,757,283	6,151,222		6,670,566	6,072,282
Debentures (note 12)		5,978,925	6,566,878		5,902,196	6,482,604
Other liabilities (notes 14 and 27)		7,426,649	6,202,506		7,331,342	6,122,908
Total liabilities		60,900,930	60,177,470		60,119,378	59,405,202
Commitments and contingencies (note 19)						
Shareholders' equity (note 1):						
Common stock of ₩5,000 par value; Authorized – 1,000,000,000 shares Issued – 644,906,826 shares in 2005 and 2004		3,224,534	3,224,534		3,183,153	3,183,153
Capital surplus (note 15)		-	-		-	-
Retained earnings (accumulated deficit) (note 16		1,358,864	(567,312)		1,341,426	(560,031)
Capital adjustments (note 17)		1,098,558	286,963		1,084,460	283,280
Minority interests in consolidated subsidiaries		1,146	8,384		1,131	8,276
Total shareholders' equity		5,683,102	2,952,569		5,610,170	2,914,678
Total liabilities and shareholders' equity	₩	66,584,032	63,130,039	$	65,729,548	62,319,880

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

	In millions of Won		In thousands of U.S Dollars	
	2005	2004	2005	2004
Operating revenue:				
Interest income (note 27):				
Interest on due from banks	₩ 31,342	25,190	$ 30,940	24,867
Interest on trading securities	70,976	57,085	70,065	56,352
Interest on available-for-sale securities	311,640	412,554	307,641	407,260
Interest on held-to-maturity securities	110,338	96,817	108,922	95,575
Interest on loans	2,891,860	2,934,111	2,854,748	2,896,457
Other interest income	24,539	26,303	24,224	25,965
	3,440,695	3,552,060	3,396,540	3,506,476
Fees and commissions (notes 21 and 27)	437,158	538,644	431,548	531,732
Other operating revenue (note 27):				
Gain on disposition of trading securities	94,294	64,780	93,084	63,948
Gain on derivatives trading and foreign currency exchange	2,676,791	2,585,812	2,642,439	2,552,628
Trust fees and commissions received from trust account	14,809	13,261	14,619	13,091
Reversal of allowance for acceptances and guarantees	-	35,088	-	34,638
Others	76,153	105,953	75,175	104,593
	2,862,047	2,804,894	2,825,317	2,768,898
Total operating revenue	6,739,900	6,895,598	6,653,405	6,807,106
Operating expenses:				
Interest expenses (note 27):				
Interest on deposits	999,457	1,133,596	986,631	1,119,048
Interest on borrowings	210,105	172,861	207,409	170,643
Interest on debentures	335,813	458,068	331,503	452,190
Other interest expense	15,390	13,473	15,192	13,300
	1,560,765	1,777,998	1,540,735	1,755,181
Commission charges (notes 22 and 27)	210,992	240,207	208,284	237,124
Other operating expenses (note 27):				
Loss on disposition of trading securities	70,693	33,755	69,786	33,322
Loss on derivatives trading and foreign currency exchange	2,468,539	2,346,867	2,436,860	2,316,749
Provision for loan losses	43,341	1,001,057	42,785	988,210
Provision for allowance for acceptances and guarantees	21,647	-	21,369	-
Provision for other liabilities	122,276	77,687	120,707	76,690
Others	121,236	104,567	119,680	103,225
	2,847,732	3,563,933	2,811,187	3,518,196
General and administrative expenses (note 23)	1,086,460	954,037	1,072,517	941,794
Total operating expenses	5,705,949	6,536,175	5,632,723	6,452,295
Operating income	₩ 1,033,951	359,423	$ 1,020,682	354,811

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME, CONTINUED

Years ended December 31, 2005 and 2004

	In millions of Won,except earnings per share data		In thousands of U.S Dollars, except earnings per share data	
Non-operating income:	2005	2004	2005	2004
Gain on disposition of available-for-sale securities	₩ 488,727	287,530	$ 482,455	283,840
Gain on disposition of tangible assets	1,512	368	1,493	363
Rental revenue	2,304	2,574	2,274	2,541
Equity income from affiliates (note 5)	535	22,535	528	22,246
Recovery of impairment losses on available-for-sale securities (note 5)	58,727	1,431	57,973	1,413
Recovery of impairment losses on held-to-maturity securities (note 5)	39,667	-	39,158	-
Others	178,876	121,380	176,581	119,822
	770,348	435,818	760,462	430,225
Non-operating expenses:				
Impairment losses on available-for-sale securities (note 5)	84,248	79,527	83,167	78,507
Impairment losses on held-to-maturity securities (note 5)	27,185	25,353	26,836	25,028
Impairment losses in investments in affiliates (note 5)	850	-	839	-
Loss on disposition of tangible assets	6,136	1,202	6,057	1,187
Loss on disposition of available-for-sale securities	6,708	6,523	6,622	6,439
Loss on investments in affiliates (note 5)	-	362	-	357
Others	42,010	180,128	41,471	177,816
	167,137	293,095	164,992	289,334
Ordinary income	1,637,162	502,146	1,616,152	495,702
Extraordinary gains	16,690	17,675	16,476	17,448
Earnings before income taxes	1,653,852	519,821	1,632,628	513,150
Income taxes (note 24)	(281,052)	20,771	(277,445)	20,504
Net income before minority interest in income	1,934,904	499,050	1,910,073	492,646
Minority interest in income (losses) of consolidated subsidiaries	1,013	(27,585)	1,000	(27,231)
Net income	₩ 1,933,891	526,635	$ 1,909,073	519,877
Ordinary earnings per share (note 25)				
Basic	₩ 2,973	790	$ 2,935	780
Diluted	₩ 2,971	790	$ 2,933	780
Earnings per share (note 25)				
Basic	₩ 2,999	818	$ 2,961	808
Diluted	₩ 2,997	818	$ 2,959	808

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2005 and 2004

	In millions of Won						In thousands of U.S.Dollars					
	Capital stock	Consolidated capital surplus	Consolidated retained earnings (accumulated deficit)	Consolidated capital adjustment	Minority interest equity	Total	Capital stock	Consolidated capital surplus	Consolidated retained earnings (accumulated deficit)	Consolidated capital adjustment	Minority interest equity	Total
January 1, 2004	3,194,625	156,805	(1,036,845)	(98,693)	26,828	2,242,720	3,153,628	154,793	(1,023,539)	(97,427)	26,484	2,213,939
Consolidated net income	-	-	526,635	-	-	526,635	-	-	519,877	-	-	519,877
Issuance of common stock	29,909	-	-	(29,909)	-	-	29,525	-	-	(29,525)	-	-
Effect of the change in capital of equity-method investees	-	1,283	-	-	-	1,283	-	1,267	-	-	-	1,267
Changes from discontinuance of equity method	-	(133,123)	-	81,373	-	(51,750)	-	(131,415)	-	80,329	-	(51,086)
Changes from discontinuance of consolidation	-	-	-	-	(17,574)	(17,574)	-	-	-	-	(17,349)	(17,349)
Gain (loss) on foreign exchange translations	-	(3,581)	(3,793)	255	-	(7,119)	-	(3,535)	(3,744)	252	-	(7,027)
Capital adjustment on investment in subsidiaries	-	(21,384)	12,256	9,128	-	-	-	(21,110)	12,099	9,011	-	-
Changes resulted from the acquisition of KEBCS	-	-	(39,438)	1,140	-	(38,298)	-	-	(38,932)	1,125	-	(37,807)
Increase in consolidated capital adjustment	-	-	-	323,669	-	323,669	-	-	-	319,515	-	319,515
Decrease in minority interest equity	-	-	-	-	(29,379)	(29,379)	-	-	-	-	(29,002)	(29,002)
Additional loss of minority interest	-	-	(28,509)	-	28,509	-	-	-	(28,143)	-	28,143	-
Others	-	-	2,382	-	-	2,382	-	-	2,351	-	-	2,351
December 31, 2004	₩ 3,224,534	-	(567,312)	286,963	8,384	2,952,569	$ 3,183,153	-	(560,031)	283,280	8,276	2,914,678
Consolidated net income	-	-	1,933,891	-	-	1,933,891	-	-	1,909,073	-	-	1,909,073
Changes from additionally acquired equity of KEBD	-	-	-	-	(7,581)	(7,581)	-	-	-	-	(7,484)	(7,484)
Capital adjustment on investment in subsidiaries(KEBD)	-	(3,133)	-	-	-	(3,133)	-	(3,093)	-	-	-	(3,093)
Gain (loss) on foreign exchange translations	-	(1,378)	(3,490)	43	(631)	(5,456)	-	(1,360)	(3,445)	42	(623)	(5,386)
Capital adjustment on investment in subsidiaries(KEBC)	-	4,511	(4,511)	-	-	-	-	4,453	(4,453)	-	-	-
Increase in consolidated capital adjustment	-	-	-	1,345,793	-	1,345,793	-	-	-	1,328,523	-	1,328,523
Deferred tax adjustment on consolidated capital adjustment	-	-	-	(534,241)	-	(534,241)	-	-	-	(527,385)	-	(527,385)
Increase in minority interest equity	-	-	-	-	974	974	-	-	-	-	962	962
Others	-	-	286	-	-	286	-	-	282	-	-	282
December 31, 2005	₩ 3,224,534	-	1,358,864	1,098,558	1,146	5,683,102	$ 3,183,153	-	1,341,426	1,084,460	1,131	5,610,170

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

	In millions of Won		In thousands of U.S Dollars	
	2005	2004	2005	2004
Cash flows from operating activities:				
Net income	₩ 1,933,891	526,635	$ 1,909,073	519,877
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Gain on valuation of trading securities, net	(440)	(6,317)	(434)	(6,236)
Gain on disposal of available-for-sale securities, net	(482,019)	(281,007)	(475,833)	(277,401)
Impairment losses on available-for-sale securities, net	25,521	78,096	25,193	77,094
Impairment losses (recovery of impairment loss) on held-to-maturity securities, net	(12,482)	25,353	(12,322)	25,028
Equity loss (earnings) from affiliates, net	315	(22,173)	311	(21,888)
Gain on disposal of loans, net	(9,110)	(50,073)	(8,993)	(49,430)
Loss on disposal of tangible assets, net	4,624	834	4,565	823
Loss (gain) on derivatives trading and foreign exchange, net	(64,271)	80,501	(63,446)	79,468
Deferred losses on foreign currency translation, net	4,457	1,364	4,400	1,346
Amortization of debt securities purchased with premiums, net	(13,329)	26,371	(13,158)	26,033
Provision for loan losses	43,341	1,001,057	42,785	988,210
Provision for other liabilities	122,276	77,687	120,707	76,690
Depreciation and amortization	115,240	121,879	113,761	120,315
Provision of retirement and severance benefit	60,942	55,990	60,160	55,271
Provision of allowance for acceptances and guarantees	21,647	-	21,369	-
Stock option compensation costs	8,531	6,493	8,421	6,410
Reversal of allowance for acceptances and guarantees	-	(35,088)	-	(34,638)
Amortization of present value discounts	(9,280)	(13,825)	(9,161)	(13,648)
Minority interest in income (losses)	1,013	(27,585)	1,000	(27,231)
Gains from liabilities exempted	(16,690)	(16,175)	(16,476)	(15,967)
Gain from trading if bills, net	(2,185)	-	(2,157)	-
Income tax benefits	(303,164)	-	(299,274)	-
Changes in assets and liabilities:				
Increase in trading securities	(110,704)	(703,723)	(109,283)	(694,692)
Decrease (increase) in accrued income	(60,576)	182,578	(59,799)	180,235
Decrease in prepaid expenses	31,817	4,688	31,409	4,628
Decrease in accrued expenses	(146,890)	(18,516)	(145,005)	(18,278)
Increase (decrease) in unearned income	1,820	(26,142)	1,797	(25,807)
Payment of severance benefits	(7,643)	(41,933)	(7,545)	(41,395)
Decrease in transfer to National Pension Fund	13	797	13	787
Increase in deposit of insurance for severance and retirement	(41,477)	(24,656)	(40,945)	(24,340)
Exercise of stock options	(1,221)	-	(1,205)	-
Net cash provided by operating activities	₩ 1,093,967	923,110	$ 1,079,928	911,264

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Years ended December 31, 2005 and 2004

	In millions of Won		In thousands of U.S Dollars	
	2005	2004	2005	2004
Cash flows from investing activities:				
Decrease in available-for-sale securities	2,413,492	1,846,673	2,382,519	1,822,974
Increase in held-to-maturity securities	(704,438)	(625,378)	(695,398)	(617,352)
Decrease in equity securities subject to equity method	27,016	233,668	26,669	230,669
Decrease (increase) in loans	(1,732,103)	943,045	(1,709,874)	930,943
Purchase of fixed assets	(145,889)	(109,761)	(144,196)	(108,352)
Decrease (increase) in other assets	2,509,028	(2,224,201)	2,477,009	(2,195,657)
Net cash provided by investing activities	2,367,106	64,046	2,336,729	63,225
Cash flows from financing activities:				
Decrease in deposits	(502,101)	(4,295,300)	(495,657)	(4,240,178)
Proceeds from (repayment of) borrowings	606,061	(696,713)	598,283	(687,772)
Proceeds from (repayment of) debentures	(587,953)	212,304	(580,408)	209,580
Increase (decrease) in other liabilities	(2,482,070)	1,464,858	(2,450,217)	1,446,059
Payment of stock issuance costs	-	(19)	-	(19)
Net cash used in financing activities	(2,966,063)	(3,314,870)	(2,927,999)	(3,272,330)
Decrease in cash due to change of consolidated subsidiaries	-	(30,291)	-	(29,902)
Net increase (decrease) in cash and cash equivalents	495,010	(2,358,005)	488,657	(2,327,743)
Cash and cash equivalents at the beginning of the year	2,798,561	5,156,566	2,762,647	5,090,391
Cash and cash equivalents at the end of the year (note 26)	₩ 3,293,571	2,798,561	$ 3,251,304	2,762,648

See accompanying notes to consolidated financial statements.

(1) Organization and Description of Subsidiaries

The accompanying consolidated financial statements of Korea Exchange Bank (the "Bank") and its consolidated subsidiaries including certain trust accounts are prepared in accordance with accounting principles generally accepted in the Republic of Korea. General information of the Bank, its consolidated subsidiaries, its non-consolidated subsidiaries and equity-method investees are described below.

(a) The Bank

The Bank was established on January 30, 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") was finalized on February 28, 2004 (see note 29).

The Bank implemented a two-to-one capital reduction on all outstanding shares of common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. In addition, on December 22, 2000, the Bank increased its capital by issuing 122 million new shares of preferred stock at par value of ₩5,000 per share in accordance with a resolution of board of directors on November 10, 2000.

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

In addition, LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerz Bank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. Also, 122 million shares and 26 million shares of preferred stock were converted to common stock on December 22, 2003 and April 22, 2004, respectively.

In addition, the Bank issued 5,981,895 shares of common stock of the Bank to the shareholders listed in the shareholders' list of KEBCS as of February 28, 2004 according to the merger agreement.

As of December 31, 2005, the total number of authorized stock of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,907 thousand shares of common stock outstanding with par value of ₩5,000).

The Bank's shareholders as of December 31, 2005 and 2004 are as follows:

	Number of shares owned	Ownership (%)
LSF-KEB Holdings, SCA	325,851,715	50.53
Commerzbank AG	94,247,389	14.61
Export-Import Bank of Korea	89,448,595	13.87
Bank of Korea	39,500,000	6.12
Others	95,859,127	14.87
	644,906,826	100.00

LSF-KEB Holdings, SCA has a right to acquire 41,764,077 shares and 49,134,208 shares of KEB from Commerzbank and Export-Import Bank of Korea, respectively, through exercising call options by October 31, 2006. LSF-KEB Holdings, SCA is in the process of sales of its stake in KEB as of December 31, 2005.

As of December 31, 2005, the Bank has 335 branches, agencies and offices in total over both domestic and overseas market. The Bank closed 8 domestic branches while opening 10 domestic branches during 2005.

(b) Domestic Subsidiaries

KEB Capital Co., Ltd. ("KEBC")

KEBC was incorporated on September 11, 1989 to engage in leasing industrial equipment and registered in Korea Securities Dealers Automated Quotation ("KOSDAQ") on January 15, 1995.
As KEBC continued to experience negative capital until March 31, 2001, its registration with KOSDAQ was canceled by KOSDAQ Committee on July 11, 2001 and withdrawn from KOSDAQ market on August 24, 2001. As of December 31, 2005, 99.3% of the total shares of KEBC are owned by the Bank.

KEBC implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling option with ₩800 per share on the shares owned by other individual shareholders and the employee stock ownership association as of November 9, 2001, for the purpose of debt restructuring due to the work-out process, based on the resolution of shareholders' meeting on October 13, 2001. This capital reduction resulted in a gain on capital reduction of ₩34,725 million which was used to recover negative capital.

In addition, on November 9, 2001, KEBC issued 14,805 thousand shares of common stock for cash at par value to the Bank, in accordance with the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting to ₩74,024 million from the Bank. As of December 31, 2005, the total paid-in-capital amounts to ₩75,400 million.

(c) Overseas Subsidiaries

KEB Futures Co., Ltd. ("KEBFC")

KEBFC was incorporated on September 24, 1997 as the integrated futures brokerage of the Bank. In 1998, KEBFC was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. As of December 31, 2005, the total paid-in-capital amounts to ₩15,000 million.

KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney, Australia on July 6, 1986 to provide financial services to Korean companies and residents in Sydney and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of KEBA amounts to AUD55,000 thousand.

Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto in Canada on October 6, 1981 to provide financial services to Korean companies and residents in Toronto and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of KEBOC amounts to CAD33.4 million.

P.T. Korea Exchange Bank Danamon ("KEBD")

KEBD was established in Jakarta in Indonesia on November 5, 1990 to provide financial services to Korean companies and residents in Jakarta and the surrounding area. The Bank additionally acquired shares of KEBD at ₩ 10,715 million in 2005. The Bank retains 99% equity ownership as of December 31, 2005, and the total paid-in-capital of KEBD amounts to IDR150,000 million.

Korea Exchange Bank Deutschland AG ("KEBDAG")

KEBDAG was established in Frankfurt in Germany on December 29, 1992 to provide financial services to Korean companies and residents in Frankfurt and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of KEBDAG amounts to EUR15,339 thousand.

KEB NY Financial Corp. ("NYF")

NYF was established in New York in the U.S.A. on April 8, 2004 to provide financial services to Korean companies and residents in New York and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of NYF amounts to US$1.

KEB LA Financial Corp. ("LAF")

LAF was established in Los Angeles in the U.S.A. on April 8, 2004 to provide financial services to Korean companies and residents in Los Angeles and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of LAF amounts to US$1.

(d) Equity Method Investees

KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")

KEBIT was established on April 6, 1988 to provide investment consulting and information services under the name, Korea Securities Investment Management Co., Ltd., which was changed to KEB Investment Management Co., Ltd. on September 16, 1992, and to KEB Investment Trust Management Co., Ltd. on July 8, 1997, and finally to KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 2004, the total paid-in-capital amounts to ₩30,000 million. On February 18, 2005, the Bank sold 2,760,000 shares of KEBIT to Landmark Investment Trust Management Co., Ltd. for ₩28,043 million. The Bank recorded a gain on disposition of available-for-sale securities amounting of ₩11,275 million for the year ended December 31, 2005 .

Cairo Far East Bank S.A.E. ("CFEB")

CFEB was established on October 1, 1978 to engage in general financial business. The Bank has 31.5% equity ownership of CFEB as of December 31, 2005 and total paid-in-capital of CFEB amounts to EGP62,540 thousand.

KEB USA Int'l Corp. ("USAI")

USAI was established in New York in the U.S.A. on May 3, 2004 for the purpose of remitting US dollars of the bank to U.S.A or the third countries. The Bank retains 100% equity ownership as of December 31, 2005, and the total paid-in-capital of USAI amounts to US$1.

(e) Condensed Financial Statements of Significant Subsidiaries

Condensed financial statements of significant subsidiaries as of December 31, 2005 and for the year then ended are as follows:

(In millions of Won)

	KEBOC	KEBDAG	KEBD	KEBC	Others	Total
Balance sheets:						
Assets:						
Cash and deposits	₩ 32,770	128,183	6,820	498	89,280	257,551
Securities	-	12,580	60,232	1,882	722,328	797,022
Loans	494,871	197,579	170,180	135,059	605,686	1,603,375
Fixed assets	1,501	118	215	34,790	2,626	39,250
Other assts	2,834	5,127	6,458	10,808	20,138	45,365
Total assets	₩ 531,976	343,587	243,905	183,037	1,440,058	2,742,563
Liabilities and shareholders' equity:						
Deposits	₩ 437,491	104,295	98,256	-	1,014,519	1,654,561
Borrowings	32,249	171,576	77,914	70,625	246,250	598,614
Debentures	-	25,918	-	-	22,303	48,221
Other liabilities	4,010	2,201	8,130	32,533	35,726	82,600
Total liabilities	473,750	303,990	184,300	103,158	1,318,798	2,383,996
Capital stock	29,063	18,396	15,465	75,400	70,390	208,714
Capital surplus	-	3,066	-	-	40,520	43,586
Retained earnings (deficit)	29,163	18,135	44,140	5,383	10,350	107,171
Capital adjustments	-	-	-	(904)	-	(904)
Total shareholders' equity	58,226	39,597	59,605	79,879	121,260	358,567
Total liabilities and shareholders' equity	₩ 531,976	343,587	243,905	183,037	1,440,058	2,742,563

(In millions of Won)

		KEBOC	KEBDAG	KEBD	KEBC	Others	Total
Statement of income:							
Operating revenue	₩	28,242	32,925	23,353	41,379	154,005	279,904
Operating expenses		17,561	25,842	7,681	31,697	128,210	210,991
Operating income		10,681	7,083	15,672	9,682	25,795	68,913
Non-operating income		26	366	20	14,843	216	15,471
Non-operating expenses		13	2,888	370	5,909	10,656	19,836
Ordinary income		10,694	4,561	15,322	18,616	15,355	64,548
Extraordinary income		-	-	-	-	-	-
Extraordinary loss		-	-	-	-	-	-
Net income before income tax		10,694	4,561	15,322	18,616	15,355	64,548
Income tax (Income tax benefits)		3,529	1,776	4,397	(1,399)	4,847	13,150
Net income	₩	7,165	2,785	10,925	20,015	10,508	51,398

Above condensed balance sheets and statements of income are based on the consolidated subsidiaries' financial statements before consolidation adjustments. Also, amount which is presented as "others" totals data of financial statements of consolidated KEBF, guaranteed trust accounts and other foreign consolidated subsidiaries.

(2) Scope of Consolidation and Accounting Using the Equity Method

The consolidated financial statements include the bank accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission ("FSC").

Subsidiaries of the Bank as of December 31, 2005 and 2004 are as follows:

(a) Subsidiaries Included in the Consolidated Financial Statements

	No. of shares held (In thousands)		Ownership (%)	
	2005	2004	2005	2004
Domestic:				
KEB Capital Co., Ltd. ("KEBC")	14,976	14,976	99.3	99.3
KEB Futures Co., Ltd. ("KEBFC")	3,000	3,000	100.0	100.0
Foreign:				
Korea Exchange Bank of Canada ("KEBOC")	334	334	100.0	100.0
KEB Australia Ltd. ("KEBA")	55,000	55,000	100.0	100.0
KEB Deutscheland AG ("KEBDAG")	20	20	100.0	100.0
P.T. KEB Danamon ("KEBD") (*1)	1	1	99.0	85.0
Banco KEB do Brazil S.A. ("KEBB")	33,726	33,726	100.0	100.0
KEB NY Financial Corp. ("NYF")	0.1	0.1	100.0	100.0
KEB LA Financial Corp. ("LAF")	0.1	0.1	100.0	100.0

*(*1) The Bank additionally acquired shares of KEBD of ₩ 10,715 million in 2005.*

(b) Subsidiaries Using Equity Accounting Method

Cairo Far East Bank S.A.E.("CFEB") and KEB USA International Corp. ("USAI") which the Bank owns 832,000 shares (31.5%) and 100 shares (100.0%), respectively, were accounted for using the equity method of accounting in accordance with the Bank Act and other related standards.

Meta Payment & Trust and KEB Fund Investor Service ("KEBFIS"), which the Bank owns 170,000 shares (38.1%) and 510,000 shares (100.0%), respectively, were excluded from consolidation since the asset values were less than ₩7 billion and excluded from using equity method accounting since there is no significant changes from applying equity method.

The Bank sold four million shares (out of 16.4 million shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million on December 17, 2004. As its ownership declined to 11.9%, the remaining 12.4 million shares with book value of ₩198,173 million were excluded from the application of the equity method and reclassified into available-for-sale securities.

The Bank sold 12.4 million shares of the aforementioned company for ₩215,085 million in 2005. For year ended December 31, 2005, the Bank recorded a gain on disposition of available-for-sale securities amounting to ₩63,275 million which is classified as non-operating income.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its accompanying consolidated financial statements are summarized as follows:

(a) Basis of Presenting Consolidated Financial Statements

The Bank maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles 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 in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated 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 consolidated financial statements.

Effective January 1, 2005, the Bank adopted Statements of Korea Accounting Standards ("SKAS") No. 15 "Investments in Associates", No. 16 "Income Taxes", No. 17 "Provisions, Contingent Liabilities and Contingent Assets". As allowed by these standards, prior year balances were not reclassified to conform to the current year presentation.

According to the revision of the Regulation on Supervision of Banking Business, the Bank additionally accrued allowance for estimated potential losses on unconfirmed guarantees and acceptances, endorsed notes, and confirmed guarantees and acceptances with credit classifications of normal and precautionary. Also the Bank accrued allowance for estimated potential losses on unused loan commitments with credit classification of normal as of December 31, 2005. As allowed by this regulation, prior year balances were not reclassified to conform to the current year presentation.

Regarding the overseas branches and subsidiaries, the Bank used their financial statements that are prepared in accordance with the financial accounting standards generally accepted in their locations, except for the cases that have material effect on the Bank's financial statements, due to difference of standards in various countries.

The fiscal year-end dates of most subsidiaries accord with that of the Bank, except for KEBC and KEBFC. Financial statements for the twelve-month period ended December 31, 2005 were used for consolidation of these two subsidiaries with fiscal year end on March 31.

Certain accounts of prior year's financial statements, presented herein for comparative purposes, were reclassified to conform to the current year's presentation. These reclassifications did not result in any change to reported net income or shareholders' equity.

(b) Basis of Translating Financial Statements

The financial statements as of and for the years ended December 31, 2005 and 2004, are expressed in Korean Won and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩1,013.0 to US$1, the basic exchange rate on December 31, 2005. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(c) Off-set of Investment Account and Capital Account

If the Bank's investment account is greater than the corresponding capital account of subsidiaries, such excess is amortized over five years using the straight-line method from the date of the acquisition of the investment. If the Bank's investment account is smaller than the corresponding capital account of subsidiaries, then the portion of the difference caused by the subsidiaries' amortizable non-currency assets is reversed over the weighted-average useful lives of such assets using the straight-line method, and the remaining resulted from the subsidiaries' unamortizable assets is reversed at the point when expensed. If the difference between the Bank's acquisition cost over its share in the subsidiaries' net asset value is due to the investee's specific assets and liabilities which are evaluated using their fair market values, such difference is accounted for using those subsidiaries' accounting treatments applied for such assets and liabilities.

All significant intercompany transactions and balances among the consolidated companies have been eliminated in consolidation.

(d) Recognition of Interest Income

Interest income on due from banks, loans and investments is recognized on an accrual basis, while interest income on overdue and defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2005 and 2004, the amount of interest not recognized due to such policy approximates ₩66,885 million and ₩156,037 million, respectively.

All additional gains during the process of handling loans are deferred and recorded as deduction from the loan amount. Additional expenses with the future economic profits, which can be classified by individual loans, are also deferred and expressed as addition to the loan amount. Such gains and expenses are reversed or amortized using effective interest rates and expressed as addition to or deduction from the interest income.

(e) Allowance for Loan Losses

The Bank applied the Forward Looking Criteria ("FLC") for its loan classification based on the credit rating to determine allowances for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers.

However, loan classification for the smaller corporate, retail loan customers and credit card accounts are classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses as of as of December 31, 2005 and 2004 were determined by applying over the following minimum percentages to each credit risk classification:

Classification	Corporate loans	Retail loans	Credit card loans and receivables
Normal	0.5%	0.75%	1.0%
Precautionary	2.0%	8.0%	12.0%
Substandard	20.0%	20.0%	20.0%
Doubtful	50.0%	55.0%	60.0%
Estimated loss	100.0%	100.0%	100.0%

Until 2004, the Bank had accrued allowance for estimated potential losses on confirmed guarantees and acceptances with credit classifications of substandard, doubtful and estimated loss. From 2005, according to the revised of Regulation on Supervision of Banking Business, the Bank established allowance for estimated losses on unconfirmed guarantees and acceptances and endorsed notes as well as confirmed guarantees and acceptances considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses.

Also, the Bank had accrued allowance for estimated potential losses on unused limit of cash advance of credit card that have been used at least once in recent one year. However, from 2005, the Bank accrued allowance for estimated potential losses on total unused limit of credit card including unused limit of cash advance with credit classification of normal. Additionally the Bank accrued allowance for estimated potential losses on unused loan commitments for corporate and retail loan customers considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses.

Subsidiaries of the Bank also apply similar accounting treatments and the criteria for loan classification and the provision of allowance as the Bank based on the borrowers' future debt repayment capacity and the historical delinquency rates.

(f) Securities

Upon acquisition, the Bank classifies certain debt and equity securities into one of the three categories of held-to-maturity, available-for-sale, or trading securities and such determination should be reassessed at each balance sheet date. Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

The securities are initially carried at cost, including incidental expenses, determined by using the specific-identification method or moving-average method.

Trading securities are carried at fair value, with unrealized holding gains and losses included in income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Impairment losses are recognized in current operations when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities. Recognition of unrealized gains and losses is summarized as follows:

Classification	Valuation method	Recognition of unrealized gains and losses
Trading	Fair value	Current operations
Available-for-sale:		
Debt securities and marketable equity securities	Fair value	Capital adjustment (except for impairment losses, which is recognized in current operations)
Non-marketable equity securities	Cost	Impairment losses to net income
Held-to-maturity	Cost	Amortized cost
Investments in affiliates	Equity	Current operations, retained earnings (accumulated deficit), or capital adjustments, depending on the source of the gains or losses

On January 1, 2005, the Bank changed its presentation manner to reflect valuation of assets included in its private placement fund to the balance sheet by classifying it into private placement fund presented as beneficiary certificate, which was previously classified into each fund per their purpose. Such change in presentation method was retroactively applied to the prior year balance sheet with no effect to the net asset value, ordinary income and net income.

(g) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies of which the Bank owns 15% or more of the voting stock or over which the Bank has significant management control are stated at an amount as determined using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the investees are accounted for as an adjustment to retained earnings or to capital adjustments.

Under the equity method of accounting, the Bank does not record its share of losses of affiliate companies when such losses would make the Bank's investment in such entity less than zero.

But, the Bank holds other assets such as preferred stock or loans for investee the Bank's share of loss of investee remains recorded until such assets are reduced to nil.

Any excess in the Bank's acquisition cost over its share in the investee's identifiable net assets is considered as goodwill and amortized using the straight-line method over five years of estimated useful life. The amortization of such goodwill is recorded against the equity income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Bank reviews goodwill for any impairment.

If the Bank's acquisition cost is less than its share in the investee's net asset value, then the portion of difference caused by the investee's amortizable non-currency assets is reversed over the weighted average useful lives of such assets using the straight-line method, and the remaining resulted from the investee's unamortizable assets is reversed at the point when expensed. If the difference between the Bank's acquisition cost over its share in the investee's net asset value is resulted due to the specific assets and liabilities which are evaluated using their fair market values, such difference is accounted for using the investee's accounting treatments applied for such assets and liabilities.

Prior to January 1, 2005, upon the sale to investee, the Bank fully eliminates the unrealized gain, whereas in the sale to the Bank, the Bank proportionately eliminates the unrealized gain based on its percentage of ownership. Effective from January 1, 2005, the Bank adopted SKAS No. 15 "Investments in Associates". In accordance with this standard, gains and losses recorded between the Bank and the investee from the transactions are proportionately eliminated, based on the Bank's percentage of ownership over the investee.

(h) Tangible Assets

Tangible assets are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see note 15). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated useful lives
Buildings	25~40 years
Equipment	4~5 years
Leasehold improvements	5~10 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

(i) Intangible Assets

Intangible asset consist of primarily of software development costs related to the office automation and productivity enhancement. The Bank capitalized ₩60,844 million and ₩26,409 million in 2005 and 2004, respectively while amortized ₩18,642 million and ₩8,403 million in 2005 and 2004, respectively.

(j) Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure which are to be sold are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

When the Bank disposes of foreclosed assets in installment sales, in conformity with accounting standard for the Korean Banking Industry, the proceeds and the sale gain/loss are recognized as receivable – disposition of asset and gain/loss – disposition of asset, respectively.

(k) Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expense.

(l) Retirement and Severance Benefits

Employees and executives who have been with the Bank and domestic subsidiaries for more than one year are entitled to lump-sum payment based on the current rate of pay and the length of service when they leave the Bank and domestic subsidiaries. Retirement and severance benefits of ₩177,037 million and ₩124,005 million represent the amount, which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2005 and 2004, respectively. The Bank and subsidiaries' actual payments of severance benefits were ₩7,643 million and ₩41,933 million in 2005 and 2004, respectively.

As for 73.5% of the severance benefit provision as of December 31, 2005, the Bank and domestic subsidiaries are under coverage by the employee retirement insurance policies purchased from insurance companies including Samsung Life Insurance Co., Ltd. in which the employees are the beneficiaries as well as the Retirement Trust provided by Chohung Bank and other financial institutions.

Through March 1999, under the National Pension Scheme of Korea, the Bank and subsidiaries transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Bank and subsidiaries and is accordingly reflected in the accompanying consolidated financial statements as a reduction from the retirement and severance benefit liability. Since April 1999, however, a new regulation applies and such transfers to the National Pension Fund are no longer required.

(m) Restructuring of Troubled Loans

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, and the difference between the nominal amount and present value is accounted for as the allowance for loan losses to the extent available. The remaining difference is recorded as provision for loan losses. Amortization of these discounts is included in other interest income. Allowance for loan losses for loans adjusted by above method is calculated based on the nominal amount, net of present value discount.

(n) Discounts on Capital Stock

Discounts on capital stock arising from the payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized within three years through appropriations of retained earnings.

(o) Income Taxes

Income tax on the earnings or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

(q) Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions. The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards. The exchange rate used to translate U.S. Dollar into Korean Won at December 31, 2005 was ₩1,013.0:US$1.

(r) Stock Options

The stock option program allows the Bank's employees to acquire shares of the Bank. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Bank values equity-settled stock options based upon an option pricing model under the minimum value method (under the fair value as for the stock options granted after December 31, 2003) and recognizes this value as an expense and capital adjustment over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received which is equal to the exercise price. However, compensation cost for cash-settled stock options shall be measured each period based on the current stock price and is recognized as an expense and a liability over the service period.

In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003, were accounted for using minimum value method using the Black-Scholes model. Effective on January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

(s) Derivatives

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. Gain or loss from valuation of trading derivative instruments is reflected in current operations. Fair value hedge accounting and cash flow hedge accounting are applied to the derivative instruments designed to hedge risks meeting certain conditions.

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, or is added to or deducted from the book values of the related assets or liabilities at the time when the hedged forecasted transaction actually incurs.

(t) Merchant Banking Account

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

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

- *Cash Management Accounts ("CMA")*
  The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

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

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

- *Lease transactions, Continued*
  The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets prior to the assets being ready for lease.

  Operating lease equipment is stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

  Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that the related lease rental revenues are recognized.

(u) Accounting for Trust Accounts

The Bank has engaged in investment trust operations, which includes unrestricted money trusts, household money trusts and development money trusts and other trusts in accordance with Article 3 of the Trust Business Act. Financial statements for Trust Accounts were prepared in accordance with the Trust Business Act, Regulation on Supervision of Trust Business, Articles of Regulation on Supervision of Trust Business and Accounting Standards for Trust Business, and items not stipulated are regulated by Accounting Standards for the Banking Industry or Appendices 4 and 5 in the Articles of Accounting Standards for the Banking Industry. Trust Accounts are separately accounted for from the Bank Accounts in accordance with the related laws and regulations. Trusts and securities investment trusts in which principals and profits are not guaranteed are excluded from the consolidated financial statements.

The significant accounting policies in the consolidation of the Trust Accounts are summarized as follows:

- *Revenues and Expenses of Trust Accounts*
  The trust accounts record the amount of the trust revenue less all expenses and trust fees as the dividends of trust profits to beneficiaries (including the guaranteed principal and minimum rate of return). The trust fees are recorded in the Bank's accounts as a part of other operating income.

- *Interest Income Recognition*
  Interest income on loans and investment securities held by the consolidated trust accounts are recognized using the same method as the banking accounts of the Bank, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral, is recognized on a cash basis.

- *Securities*
  Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's consolidated trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the consolidated trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

- *Securities, Continued*
  The securities in the trust accounts, which are consolidated, are valued by the closing stock price as of the balance sheet date, if no closing price exists as of that date the nearest closing price to the date is used, retroactively.

  Under Korean Stock Exchange Act 2, article 14, unlisted stock with market price formed under KOSDAQ, is valued by the method used for listed stock, unlisted stock without market price will be valued under cost method.

  In addition, if the stock does not yet have a market price due to ex-rights, ex-dividend, decrease in capital or M&A it will be valued according to Financial Supervisory Service at its book value until a market price is formed.

  Other than debt securities in performance yield trusts or unspecified money trusts which guarantee principal at a minimum rate of return, all the debt securities in the trust which have a formed market price in the exchange market for at least 10 days for each preceding 3 months from the valuation date, are valued at the closing market price on the valuation date. However, for listed and unlisted debt securities which have no market price as of the valuation date, the interest rates announced daily by Korean Securities Dealer Association, and incremental interest rate relating to illiquidity risk can be considered in computing the adjusted rate of return for valuation of debt securities. Furthermore, under transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, when market value does not exist or does not reflect fair value, securities are valued by computation of fair value provided by the Market Value Appraisal Committee, which is managed by the trust company established by the Bank.

- *Loans to Bank Accounts*
  The Bank's consolidated trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank's banking accounts. Interest on these deposits is computed and recorded daily. These deposits at the Bank and their interests are eliminated in consolidation.

- *Special Reserve*
  Certain consolidated money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, the Bank is required to set up a minimum 25% of trust fees as a special allowance, until the total allowance equals 5% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking business operations.

- *Allowance for Loan Losses*

Allowance for loan losses of consolidated trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank.

Estimated loan losses as of December 31, 2005 and 2004 were determined by applying over the following minimum percentages to each credit risk classification:

Classification	Trust Account Assets	Retail loans
Normal	0.5%	0.75%
Precautionary	2.0%	8.0%
Substandard	20.0%	20.0%
Doubtful	50.0%	55.0%
Estimated loss	100.0%	100.0%

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 2005 and 2004 amounts to ₩6,357 million and ₩5,696 million, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2005 and 2004 amount to ₩53,182 million and ₩272,976 million, respectively.

- *Trust Fees*

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations.

- *Compensation to the Trust Accounts*

The Bank compensates for losses incurred in certain consolidated trust accounts subject to minimum return guarantees. Such compensations are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

There are no compensations accounted for as other income of the consolidated trust accounts for the years ended December 31, 2005 and 2004.

(v) Cash Equivalents

The Bank and subsidiaries consider short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(w) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable. Effective January 1, 2005, the Bank adopted SKAS No. 17 ""Provisions, Contingent Liabilities and Contingent Assets". This new standard is consistent with the Bank's previous policy.

(4) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Cash on hand	₩ 1,396,406	1,266,966
Foreign currencies	263,604	242,356
Due from banks in Won	473,103	415,996
Due from banks in foreign currencies	990,147	863,913
	₩ 3,123,260	2,789,231

(b) Cash and due from banks which are restricted from withdrawal as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Reserve deposits with the Bank of Korea:		
In Won	₩ 177,818	237,045
In Foreign Currency	191,394	226,344
Won currency deposit	81,599	70,674
Foreign currency deposit	18,463	15,617
	₩ 469,274	549,680

Deposits with the Bank of Korea (reserve deposits) represent reserves, which the Bank is required to maintain for the payment of deposit liabilities in accordance with the Banking Act and the Bank of Korea Act. Won currency deposits comprise deposits in Kookmin Bank deposited in connection with the asset-backed securitization and other deposits. Foreign currency deposits consist of deposits provided by the Bank in connection with derivative transactions, deposits made by P.T.Korea Exchange Bank Danamon to the Central Bank of Indonesia, and deposits made by Banco KEB do Brazil S.A. to the Central Bank of Brazil in accordance with the related regulations and other deposits.

(c) The scheduled maturities of due from banks as of December 31, 2005 are as follows:

(In millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 213,808	-	259,295	473,103
Due from banks in foreign currencies	797,318	1,434	191,395	990,147
	₩ 1,011,126	1,434	450,690	1,463,250

(5) Securities

(a) Securities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005			2004		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 1,772,002	96,729	1,868,731	1,697,644	59,943	1,757,587
Available-for-sale	6,471,382	2,661,789	9,133,171	8,144,920	1,567,031	9,711,951
Held-to-maturity	2,327,242	-	2,327,242	1,487,505	-	1,487,505
Investment in affiliates	-	9,971	9,971	-	25,994	25,994
	₩ 10,570,626	2,768,489	13,339,115	11,330,069	1,652,968	12,983,037

(b) Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits as of December 31, 2005 and December 31, 2004 are ₩13,119 million (₩14,045 million) and ₩17,628 million (₩19,433 million), respectively.

(c) Securities Provided as Collateral

As of December 31, 2005, securities provided as collateral for borrowings from the Bank of Korea and other financial institutions are as follows:

Guarantees	Pledge value	Reference
Bank of Korea	₩ 1,509,729	Borrowings from the Bank of Korea (BOK)
Bank of Korea	68,287	Overdrafts from BOK
Bank of Korea	653,448	Bonds sold under repurchase agreements (BOK)
Bank of Korea	299,428	Inter-bank settlements
Korea Development Bank	34,962	Asset-backed settlements
Futures Corporations, Banks	409,571	Futures transaction/Borrowings denominated in foreign currencies
Merrill Lynch	4,062	Credit default swap
Other financial institutions	516,969	Bonds sold under repurchase agreements
Korea Futures Exchange	11,587	Futures transactions
Deutsche Bundesbank	600	Collateral as emergency borrowings
	₩ 3,508,643	

(d) Foreign Currency Denominated Debt Securities by Country

Foreign currency denominated debt securities, classified by country, as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

Countries	2005 In thousands of U.S.dollars(*)	2005 In millions of Won	2005 Ratio (%)	2004 In thousands of U.S.dollars(*)	2004 In millions of Won	2004 Ratio (%)
Korea	$ 1,087,195	₩ 1,101,328	88.57	$ 860,751	₩ 898,452	84.85
USA	12,988	13,157	1.06	49,149	51,302	4.84
Philippines	5,608	5,681	0.46	7,675	8,011	0.76
Brazil	5,144	5,211	0.42	5,223	5,451	0.51
Others	116,478	117,992	9.49	91,697	95,713	9.04
	$ 1,227,413	₩ 1,243,369	100.00	$ 1,014,495	₩ 1,058,929	100.00

(*) All currencies other then U.S. dollars were translated into U.S. dollars using the exchange rates as of the balance sheet dates.

(e) Equity Securities Accounted for Using the Equity Method

As of December 31, 2005, details of investments in affiliates accounted for using the equity method are as follows:

(In millions of Won)

	Acquisition cost	Beginning balance under equity method	Acquisition/ disposition or dividend	Translation adjustment	Increase (decrease) in equity of equity method investees: Equity in earnings (losses)	Accumulated deficit	Capital adjustment	Book value
KEBIT (*1)	₩ 13,800	15,600	(15,600)	-	-	-	-	-
KEB Fund Investor Services Co., Ltd. (*2)	2,550	2,550	-	-	-	-	-	2,550
MP&T (*2) (*4)	850	850	-	-	(850)	-	-	-
CFEB (*3)	8,281	4,153	-	(265)	113	-	241	4,242
USAI (*3)	2,881	2,841	-	(84)	422	-	-	3,179
	₩ 28,362	25,994	(15,600)	(349)	(315)	-	241	9,971

*(*1) The investee was disposed of during 2005.*
*(*2) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies were considered insignificant.*
*(*3) Based on the unaudited financial statements of the affiliates.*
*(*4) Including ₩850 million of the impairment losses on equity securities of MP&T which were valued at cost. MP&T is in the process of liquidation as of December 31, 2005.*

As of December 31, 2004, details of investments in affiliates accounted for using the equity method are as follows:

(In millions of Won)

	Acquisition cost	Beginning balance under equity method	Acquisition/ disposition or dividend	Translation adjustment	Increase (decrease) in equity of equity method investees: Equity in earnings (losses)	Accumulated deficit	Capital adjustment	Book value
KEBIT (*1)	₩ 13,800	14,971	-	-	1,086	(457)	-	15,600
Doosan Heavy Industries & Construction Co., Ltd. (*2)	82,000	250,085	(264,561)	-	18,396	384	(4,304)	-
KEB Fund Investor Services Co., Ltd. (*3)	2,550	2,550	-	-	-	-	-	2,550
MP&T (*3)	850	850	-	-	-	-	-	850
PUB (*4)	38,493	82,869	(81,575)	(3,858)	2,821	-	(257)	-
KEB Ire. (*5)	3,436	7,019	(6,389)	(268)	(362)	-	-	-
CFEB (*1)	8,281	4,704	-	(605)	-	-	54	4,153
USAI (*1)	2,881	-	2,870	(261)	232	-	-	2,841
	₩ 152,291	363,048	(349,655)	(4,992)	22,173	(73)	(4,507)	25,994

*(*1) Based on the unaudited financial statements of the affiliates as of the end of year.*
*(*2) Amounts were excluded from the applying equity method due to the partial disposal of investment.*
*(*3) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies were considered insignificant.*
*(*4) Amounts were disposed of during 2004.*
*(*5) The investee was liquidated during 2004.*

(f) Sales and Liquidation of Subsidiaries

On February 18, 2005, the Bank sold 2,760,000 shares of KEB Commerz Investment Trust Management Co., Ltd., a domestic subsidiary of the Bank, to Landmark Investment Trust Management Co., Ltd. for ₩28,043 million. The Bank recorded a gain on disposition of available-for-sale securities amounting of ₩11,275 million in 2005.

The Bank had entered into a contract to sell its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank. This sales transaction was finalized on April 30, 2004 upon the approval from Federal Reserve Bank of San Francisco on April 12, 2004. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed received amounted to US$195,924 thousand. The Bank recorded a gain on disposition of available-for-sale securities amounting to ₩181,463 million in 2004.

KEB Ireland Ltd. ("KEB Ire"), a subsidiary of the Bank, was liquidated on September 30, 2004.

(g) Sale of Investments Accounted for Using the Equity Method

On December 17, 2004, the Bank sold four million shares (out of 16.4 million shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million. As its ownership declined to 11.9%, the remaining 12.4 million shares with book value of ₩198,173 million were excluded from the application of equity method and reclassified into available-for-sale securities. The Bank recorded a gain on disposition of available-for-sale securities of ₩593 million which was classified as non-operating income in 2004.

The Bank sold 12.4 million shares of the aforementioned company for ₩215,085 million in 2005. In 2005, the Bank recorded a gain on disposition of available-for-sale securities amounting to ₩63,275 million which is classified as non-operating income.

(h) Impairment Loss

Impairment losses on equity securities for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Issuer		Beginning balance	Impairment loss	Adjusted book value
Marketable securities in Won	Daerim Corp.	₩	1,337	76	1,261
	Ssangyong Corp.		1,615	633	982
			2,952	709	2,243
Non-marketable securities in Won	Daerim Corp. (Preferred stock)		136	111	25
	Daewoo Electronics Corp		32,970	7,503	25,467
	Anam Co., Ltd.		4,400	3,666	734
	The Korea Economic Daily		126	6	120
	VCash Company Co. Ltd.		49	49	-
	CHK SPC		2	2	-
	Badbank Harmony Ltd. (Preferred stock)		5,479	5,479	-
	Korea Smart Card Co.Ltd.		1,624	1,203	421
			44,786	18,019	26,767
Other	KEB 4th SPC		1	1	-
Non-marketable securities in foreign currencies	CLS Group Holdings		5,165	4,454	711
		₩	52,904	23,183	29,721

Impairment losses on debt securities for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Issuer		Beginning balance	Impairment loss	Adjusted book value
Available for sales securities	Daewoo Commercial Vehicle Co., Ltd.	₩	388	257	131
	Hanbosteel Co., Ltd		80	80	-
	Kunyoung Co., Ltd.		7	7	-
	TCW GEM2		30	30	-
	KEB 11th ABS Subordinated bond		65,000	32,500	32,500
	KEB 12th ABS Subordinated bond		66,000	28,191	37,809
			131,505	61,065	70,440
Held to maturity securities	KEB 6th ABS Subordinated bond		26,350	26,350	-
	KEB 8th ABS Subordinated bond		7,195	835	6,360
			33,545	27,185	6,360
		₩	165,050	88,250	76,800

The recovery of impairment losses on equity securities for the year ended December 31, 2005 is as follows:

(In millions of Won)

	Issuer		Book value prior to Adj.	Recovery of impairment loss	Adjusted book value
Marketable securities	Hynix (*1)	₩	1,426,115	55,833	1,426,115
Non-marketable securities	Aekang		-	98	98
		₩	1,426,115	55,931	1,426,213

*(*1) The amount of recovery of impairment losses reduced the amount of unrealized gain on available-for -sale securities (capital adjustment) and did not impact on the adjusted book value.*

The recovery of impairment losses on debt securities for the year ended December 31, 2005 is as follows:

(In millions of Won)

	Issuer		Book value prior to Adj.	Recovery of impairment loss	Adjusted book value
Available-for-sales securities	TCW GEM2(*1)	₩	-	1,879	-
	PEI (*2)		3,633	917	-
			3,633	2,796	-
Held-to-maturity securities	KEB 6th ABS Subordinated bond		36,637	18,363	55,000
	KEB 7th ABS Subordinated bond		31,401	2,393	33,794
	KEB 8th ABS Subordinated bond		30,250	10,750	41,000
	KEB 9th ABS Subordinated bond		44,907	8,161	53,068
			143,195	39,667	182,862
		₩	146,828	42,463	182,862

*(*1) The recovery of impairment losses is the amount resulted from collecting the principal sum.*
*(*2) Transferred as accounts receivable as of December 31, 2005.*

(i) The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2005 are as follows:

(In millions of Won)

		Due in less than one year	Due after one year through three years	Due after three years	Total
Government bonds	₩	1,049,331	1,613,683	1,022,523	3,685,537
Finance debentures		1,687,529	2,275,391	345,228	4,308,148
Corporate bonds		225,559	599,374	202,253	1,027,186
Other securities		296,819	-	-	296,819
Foreign currency denominated securities		62,334	1,035	40,374	103,743
Off-shore debt securities		108,719	221,336	819,138	1,149,193
	₩	3,430,291	4,710,819	2,429,516	10,570,626

(j) Private Placement Funds

Major assets for private placement funds held by the Bank and its result of operation as of December 31, 2005 are as follows:

(In millions of Won)

	Forever 12M Private Bond 2	SAFE&PLUS Private Hybrid 5	Total
Due from banks in Won	₩ 1,025	243	1,268
Call loans	20,327	1,119	21,446
Available-for-sale securities	199,661	28,077	227,738
Others	26,819	239	27,058
	₩ 247,832	29,678	277,510

(6) Loans

(a) Loans as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Loans in Won	₩ 28,566,644	25,760,946
Loans in foreign currencies	5,459,055	5,732,988
Bills bought in Won	1,917,431	2,017,030
Bills bought in foreign currencies	3,234,266	3,260,155
Call loans	1,273,993	833,349
Credit card accounts	2,260,486	2,619,986
Securities purchased under resale agreements	-	1,230,000
Other	774,608	628,512
	43,486,483	42,082,966
Less: allowance for loan losses	(598,422)	(912,467)
net deferred loan fees and costs	(2,667)	(1,271)
	₩ 42,885,394	41,169,228

(b) Foreign Currency Loans By Country

As of December 31, 2005 and 2004, loans denominated in foreign currencies classified by nationality of borrowers are as follows:

(In millions of Won)

Countries	2005 In thousands of U.S.dollars(*)	2005 In millions of Won	2005 Ratio (%)	2004 In thousands of U.S.dollars(*)	2004 In millions of Won	2004 Ratio (%)
Korea	$ 3,615,500	₩ 3,662,502	67.09	$ 3,999,277	₩ 4,174,445	72.81
Japan	272,770	276,316	5.06	225,521	235,399	4.11
Indonesia	45,753	46,348	0.85	59,372	61,973	1.08
Others	1,454,975	1,473,889	27.00	1,208,250	1,261,171	22.00
	$ 5,388,998	₩ 5,459,055	100.00	$ 5,492,420	₩ 5,732,988	100.00

(*) Loans denominated in other foreign currencies were presented at equivalent U.S. dollar amounts using the exchange rates as of the balance sheet date.

(c) Allowances for Loan Losses

Changes in allowances for loan losses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Balance at the beginning of the year	₩ 912,467	2,441,778
Provision for loan losses	43,341	1,001,057
Loans charged off	(588,761)	(2,894,081)
Transfer from repurchase of loans from KAMCO and others	250,417	394,161
Translation adjustments and others	(6,826)	(16,623)
Change of present value discount	(12,216)	(13,825)
Balance at the end of the year	₩ 598,422	912,467

Ratios of allowance for loan losses to total loans (net of present value discount) for the years ended December 31, 2005, 2004 and 2003 are 1.4%, 2.2% and 5.4%, respectively.

As of December 31, 2005 and 2004, the Bank's loans, of which the balance had been already charged off without the expiry of the Bank's legal claim rights against borrowers or guarantors, amounted to ₩2,156,489 million and ₩5,393,852 million, respectively.

The loans in Won in 2005 and 2004 amounting to ₩214,740 million and ₩235,425 million, respectively, are the discounted notes that are included in CMA operating assets of the Bank.

(d) Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2005, discounted using interest rates of 5.25% to 15.25%, is ₩813,813 million which is less than their nominal value of ₩870,057 million.

The changes in present value discount and net deferred loan fees and costs of the Bank's restructured loans for the year ended December 31, 2005 are as follows:

(In millions of Won)

	Balance at January 1, 2005	Addition	Deduction	Balance at December 31,2005
Allowance for loan losses (Present value discount)	₩ 68,460	-	12,216	56,244
Net deferred loan fees and costs	₩ 1,271	2,335	939	2,667

(7) Cash Management Accounts

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets as of December 31, 2005 and 2004 comprise the following:

(In millions of Won)

	2005	2004
Notes discounted	₩ 214,740	235,425

(8) Fixed Assets

Fixed assets as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Investment assets	₩ 895	1,077
Tangible assets:		
Land	383,118	387,825
Buildings	487,127	459,823
Office facilities held on lease	78,188	65,267
Equipment	630,464	705,913
Construction in-progress	-	351
	1,578,897	1,619,179
Less: accumulated depreciation	(691,004)	(716,223)
	887,893	902,956
Intangible assets:		
Development costs	82,415	40,098
Others	2,083	3,133
	84,498	43,231
Foreclosed assets:		
Acquisition cost	73	70
Less: allowance for possible losses on foreclosed assets	-	-
	73	70
	₩ 973,359	947,334

As of December 31, 2005, the value of the Bank and subsidiaries' domestic land as determined by the tax authorities for property tax assessment purpose amounted to ₩592,298 million (book value ₩382,871 million).

As of December 31, 2005, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses with a coverage amounting to ₩450,656 million. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

(9) Other Assets

Other assets as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Guarantee deposits	₩	485,124	501,826
Accounts receivable		3,569,567	2,757,882
Accrued income		348,496	287,920
Prepaid expenses		66,748	98,565
Deferred tax assets (note 24)		8,240	207,814
Derivative instrument assets		496,822	738,562
Others		1,287,907	648,640
	₩	6,262,904	5,241,209

(10) Deposits

(a) Deposits as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at Dec. 31, 2005		2005	2004
Deposits in Won:				
Demand deposits	0.00~0.20	₩	15,496,298	13,634,444
Savings and time deposits	0.00~6.50		13,777,961	16,092,724
Mutual installment saving	2.50~3.90		287,600	496,128
			29,561,859	30,223,296
Deposits in foreign currencies:				
Demand deposits	0.00~1.33		3,482,442	2,969,691
Savings and time deposits	1.24~4.54		4,704,716	4,736,164
			8,187,158	7,705,855
Certificates of deposits	2.40~3.20		2,989,056	3,327,713
		₩	40,738,073	41,256,864

(b) The scheduled maturities of deposits as of December 31, 2005 are as follows:

(In millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩	12,005,089	1,910,530	15,646,240	29,561,859
Deposits in foreign currencies		4,986,792	50,955	3,149,411	8,187,158
Certificates of deposits		2,989,056	-	-	2,989,056
	₩	19,980,937	1,961,485	18,795,651	40,738,073

(11) Borrowings

(a) Borrowings as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at Dec. 31, 2005	2005	2004
Borrowings in Won:			
Borrowings from the Bank of Korea	2.00	₩ 1,194,989	1,062,945
Borrowings from Governmental fund and Public corporation	1.5~4.25	249,332	297,889
Borrowings from other banks	1.5~4.55	222,466	116,971
Borrowings from others	2.0~4.90	508,652	501,574
		2,175,439	1,979,379
Borrowings in foreign currencies:			
Short-term borrowings	0.09~7.87	2,260,306	1,761,068
Medium and long-term borrowings	3ML+40BP~6ML+60BP	175,274	374,610
Refinance	3.91~4.62	293,770	156,570
Borrowings from banks for subordinated loans	2.35~2.55	10,199	16,404
Borrowings from others	0~4.27	743,765	665,734
		3,483,314	2,974,386
Due to Bank of Korea in foreign currencies	0.1~6ML+50BP	5,257	135,721
Securities sold under repurchase agreements	2.30~5.00	734,762	732,110
Bills sold	2.50~4.00	272,289	130,256
Call money	2.55~4.31	86,222	199,370
		₩ 6,757,283	6,151,222

As of December 31, 2005, in the normal course of funding activities the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions (see note 5).

(b) Subordinated borrowings as of December 31, 2005 and 2004 are as follows:

(In millions of Won, In thousands of U.S. Dollars)

	Lender	Interest rate (%) at Dec. 31, 2005	2005	2004
Borrowings in foreign currencies	Commerzbank	-	₩ -	36,533
			-	(US$35,000)

(c) The scheduled maturities of borrowings as of December 31, 2005 are as follows:

(In millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,220,500	136,273	818,666	2,175,439
Borrowings in foreign currencies	3,472,081	11,233	-	3,483,314
Due to bank of Korea in foreign currencies	5,257	-	-	5,257
	₩ 4,697,838	147,506	818,666	5,664,010

(12) Debentures

(a) Debentures as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	Interest rate (%) at Dec. 31, 2005		2005	2004
Debentures in Won:				
Debentures	3.50~7.73	₩	3,700,000	4,384,000
Subordinated debentures	4.90~8.00		1,293,130	1,442,504
Hybrid Tier 1	8.50		250,000	250,000
			5,243,130	6,076,504
Discounts on debentures			(8,109)	(13,052)
			5,235,021	6,063,452
Debentures in foreign currencies:				
Debentures	6ML+0.10~5.50		250,821	86,097
Subordinated debentures	3ML+2.00~5.00		497,433	419,757
			748,254	505,854
Discounts on debentures			(4,350)	(2,428)
			743,904	503,426
		₩	5,978,925	6,566,878

(b) Subordinated debentures as of December 31, 2005 and 2004 are as follows:

(In millions of Won, In thousands of U.S. Dollars)

	Maturity	Interest rate (%) at Dec. 31, 2005		2005	2004
Sold to general public	Feb. 28, 2005 ~ Nov. 28, 2014	4.90~8.00	₩	1,293,130	1,442,504
JPMorgan Chase and Merrill Lynch(*1)	Nov. 18, 2006	3ML+2.00		202,600 (US$200,000)	208,760 (US$200,000)
Citigroup and HSBC(*1)(*2)	June 10, 2015	5.00		294,833 (US$291,050)	-
Credit Suisse (*1)(*3)	June 30, 2010	-		-	210,997 (US$202,143)
			₩	1,790,563	1,862,261

*(*1) The first underwriters*
*(*2) After June 10, 2010, the optional early redemption right can be exercised.*
*(*3) On June 30, 2005, this was repaid due to exercising the Bank's optional early redemption right.*

Certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Gain and loss on foreign currency transactions amounting to W9,067 million and W2,220 million, respectively, have been accounted for in connection to such contracts for the year ended December 31, 2005.

(c) As of December 31, 2005, Hybrid Tier 1 bond is as follows:

(In millions of Won)

Type	Maturity (*2)	Interest rate (*3)		Amount
Hybrid Tier 1(*1)	May 28, 2033	8.50%	₩	250,000

*(*1) After May 29, 2008, call option can be exercised under the authorization of Governor of Financial Supervisory Service.*
*(*2) After expiration, the bond can be extended under the same terms.*
*(*3) Beginning May 29, 2013, the interest rate increases to 10.0%*

(d) The scheduled maturities of debentures as of December 31, 2005 are as follows:

(In millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 1,510,626	3,232,504	500,000	5,243,130
Debentures in foreign currencies	380,485	72,936	294,833	748,254
	₩ 1,891,111	3,305,440	794,833	5,991,384

(13) Retirement and Severance Benefits

Changes in retirement and severance benefits during the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Balance at the beginning of the year	₩ 124,005	110,215
Provisions for retirement and severance benefits	60,942	55,990
Severance payments	(7,643)	(41,933)
Adjustments of foreign exchange transactions	(267)	(267)
	177,037	124,005
Deposits of insurance for retirement and severance benefits	(130,185)	(88,708)
Transfer to the National Pension Fund	(838)	(851)
Balance at the end of the year	₩ 46,014	34,446

(14) Other Liabilities

Other liabilities as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Accrual for retirement and severance benefits (note 13)	₩ 46,014	34,446
Allowance for guarantees and acceptance	41,336	19,750
Due to trust account	344,319	305,673
Foreign exchange remittance pending	248,312	253,514
Accounts payable	3,623,890	2,726,722
Accrued expenses	640,854	787,744
Unearned income	54,143	52,323
Deposits for letter of guarantees and others	173,990	160,006
Deferred tax liabilities (note 24)	31,740	-
Derivative instrument liabilities (note 19)	652,937	831,403
Suspense receipt accrual	64,439	155,480
Liability for GIRO accounts	103,630	81,960
Agency receipt liability	660,597	564,844
Others	740,448	228,641
	₩ 7,426,649	6,202,506

(15) Asset Revaluation

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

(16) Retained Earnings (Accumulated Deficit)

(a) Consolidated retained earnings (consolidated accumulated deficit) as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Other statutory reserves	₩	34,965	30,694
Unappropriated retained earnings (Undisposed accumulated deficit)		1,323,899	(598,006)
	₩	1,358,864	(567,312)

(b) Other Statutory Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income taxes as a Japanese legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. In addition, Singapore and Hanoi branches' statutory reserves are included in this reserve amount.

(17) Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Unrealized gain on available-for-sale securities	₩	1,406,314	594,908
Unrealized loss on held-to-maturity securities		(671)	-
Unrealized loss on investments in affiliates		(850)	(1,457)
Stock option		14,959	7,649
Discounts on stock issued		(324,854)	(324,854)
Capital adjustment of consolidated subsidiaries		3,660	10,717
	₩	1,098,558	286,963

(18) Stock Options

As of December 31, 2005, stock options granted to the Bank's employees and executives are as follows:

Grant date	Stock options granted	Stock options expired to date	Stock options exercised	Stock options outstanding	Exercise price in Won per share	Exercise period
March 25, 2000	784,000	761,500	22,500	-	₩ 10,000	2003.03.26~2006.03.25
March 28, 2000(*)	53,369	-	-	53,369	15,927	2003.06.22~2006.03.28
May 18, 2000	400,000	377,500	10,000	12,500	10,000	2003.05.19~2006.05.18
September 14, 2000(*)	74,716	-	-	74,716	15,927	2003.09.15~2006.09.14
March 13, 2001	562,000	15,000	121,000	426,000	5,000	2004.03.14~2007.03.13
March 30, 2002(*)	32,020	24,015	-	8,005	70,715	2005.03.31~2008.03.30
August 26, 2002	725,000	421,850	42,990	260,160	6,300	2005.08.27~2008.08.26
March 31, 2003(*)	101,401	-	-	101,401	13,266	2006.04.01~2009.03.31
September 4, 2003(*)	53,369	-	-	53,369	15,533	2006.09.05~2009.09.04
September 16, 2003	120,000	54,400	-	65,600	5,000	2006.09.17~2009.09.16
February 13, 2004	2,450,000	380,000	-	2,070,000	7,000	2006.02.14~2009.02.13
March 7, 2005	1,435,000	80,000	-	1,355,000	8,800	2007.03.08~2010.03.07
June 29, 2005	200,000	-	-	200,000	9,000	2007.06.30~2010.06.29
	6,990,875	2,114,265	196,490	4,680,120		

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

In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003 were accounted for using minimum value method using the Black-Scholes model. Effective on January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

Grant date	Risk-free interest rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)
March 25, 2000	6.35	6	90.01	0.0
March 28, 2000(*)	6.70	3.25	49.68	0.0
May 18, 2000	6.35	6	90.01	0.0
September 14, 2000(*)	6.70	3	61.29	0.0
March 13, 2001	6.35	6	90.01	0.0
March 30, 2002(*)	6.39	3	63.53	4.4
August 26, 2002	6.35	6	90.01	0.0
March 31, 2003(*)	4.62	3	58.35	0.0
September 4, 2003(*)	4.40	3	50.30	0.0
September 16, 2003	4.54	6	89.81	0.0
February 13, 2004	5.12	5	84.86	0.0
March 7, 2005	4.43	5	76.70	0.0
June 29, 2005	3.89	5	71.85	0.0

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

Changes in stock options during the year ended December 31, 2005 are as follows:

(In millions of Won)

	2005
Beginning balance	₩ 7,649
Compensation costs for the year ended December 31, 2005	8,531
Decrease due to the stock options exercised	(1,221)
Ending balance	₩ 14,959

The difference between compensation costs calculated using minimum value method and those calculated using fair value method is as follows:

(In millions of Won)

	Minimum value method	Fair value method
Total compensation costs	₩ 23,145	24,856
Compensation costs for the year ended December 31, 2005	8,531	8,725
Accumulated compensation costs as of December 31, 2004	7,579	9,071
Compensation costs to be recognized	7,035	7,060

If the Bank applies fair value method in calculating compensation costs, ordinary income, net income, ordinary earnings per share and net earnings per share for the year ended December 31, 2005 are as follows:

(In millions of Won)

	As reported	Adjustment	Revised
Ordinary income	1,917,201	(194)	1,917,007
Net income	1,933,891	(194)	1,933,697
Ordinary earnings per share in won	2,973	(1)	2,972
Net earning per share in won	2,999	(1)	2,998

140,000 shares of stock option were canceled due to the retirement before agreed service period. The number of exercised stock options was 196,000 shares and the difference between market value and exercise price that the Bank paid was ₩1,221 million.

(19) Commitments and Contingencies

(a) Guarantees and Acceptances

The Bank and subsidiaries make various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. The confirmed Guarantees and acceptances outstanding as of December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Guarantees and acceptances in Won	₩ 747,317	798,429
Guarantees and acceptances in foreign currencies	1,835,233	1,813,960
	₩ 2,582,550	2,612,389

The unconfirmed guarantees and acceptances and endorsed notes with collateral outstanding as of December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Letters of credit issued but not yet drawn	₩ 3,182,104	3,732,571
Other guarantees and acceptances	12,100	17,405
	3,194,204	3,749,976
Endorsed notes with collateral	52,672	94,493
	₩ 3,246,876	3,844,469

Allowances for guarantees and acceptances as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

2005	Confirmed guarantees and acceptances	Unconfirmed guarantees and acceptances(*)	Endorsed notes with collateral(*)	Total
Amount	₩ 2,582,550	3,194,204	52,676	5,829,430
Allowances for guarantees and acceptances	33,811	7,262	263	41,336
Ratio (%)	1.31	0.23	0.50	0.71

(*) The unconfirmed guaranteed and acceptances and endorsed notes with collateral are required to accrue allowance for estimated potential losses from 2005 (see note 3(e)).

(In millions of Won)

2004	Confirmed guarantees and acceptances	Unconfirmed guarantees and acceptances	Endorsed notes with collateral	Total
Amount	₩ 2,612,389	3,749,976	94,493	6,456,858
Allowances for guarantees and acceptances	19,750	-	-	19,750
Ratio (%)	0.76	-	-	0.31

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2005 and 2004 are as follows:

	2005			2004		
Countries	Thousands of U.S. dollars	Millions of Won	Ratio (%)	Thousands of U.S. dollars	Millions of Won	Ratio (%)
Korea	$ 1,507,523	₩ 1,527,121	83.21	$ 1,506,800	₩ 1,572,798	86.71
France	47,656	48,275	2.63	60,024	62,653	3.45
Germany	37,552	38,040	2.07	22,443	23,426	1.29
UK	19,620	19,875	1.08	7,723	8,061	0.44
U.S.A.	39,506	40,020	2.18	29,969	31,282	1.72
Japan	25,385	25,715	1.40	29,537	30,831	1.70
Others	134,439	136,187	7.43	81,346	84,909	4.69
	$ 1,811,681	₩ 1,835,233	100.00	$ 1,737,842	₩ 1,813,960	100.00

The Bank and subsidiaries' loan commitments as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Commitments for loans in Won	₩ 31,162,039	605,206
Commitments for foreign currency loans	2,074,953	80,695
Securities purchase commitments in Won	409,033	50,000
Other commitments in foreign currency	8,993,490	74,632
	₩ 42,639,515	810,533

The Bank accrued allowance for estimated potential losses on commitments considering the credit conversion factor based on the new standard of Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses. As of December 31, 2005, the Bank recognized ₩90,781 million of provision for abovementioned commitments (see note 3(e)).

Loans written off amounted to ₩2,156,489 million and ₩5,393,852 million as of December 31, 2005 and 2004, respectively.

Government bonds sold over the counter as of December 31, 2005 and 2004 amounted to ₩13,878 million and ₩24,484 million, respectively.

Endorsed notes without collateral held by the Bank amount to ₩2,073,972 million and ₩1,479,383 million as of December 31, 2005 and 2004, respectively.

The Bank purchased the note forged by the employee of the Kukdong City Gas Co. Ltd and transferred it by endorsement without collateral recognizing as suspense receivables in other assets amounting to ₩32,601 million as of December 31, 2005. The Bank is in litigation for the forged note and recognized ₩32,601 million of other liability related to these lawsuits.

(b) Derivative Financial Instruments

Contracts of derivative financial instruments as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005			2004		
	Trading	Hedging	Total	Trading	Hedging	Total
Foreign currency related contracts						
Forward contracts	₩ 21,706,315	-	21,706,315	16,491,751	1,887	16,493,638
Future contracts	237,245	-	237,245	162,624	-	162,624
Swap contracts	4,406,534	-	4,406,534	3,128,638	-	3,128,638
Option contracts purchased	1,389,356	-	1,389,356	1,698,416	-	1,698,416
Option contracts sold	2,788,144	-	2,788,144	1,358,540	-	1,358,540
	30,527,594	-	30,527,594	22,839,969	1,887	22,841,856
Interest rate related contracts						
Future contracts purchased	-	-	-	67,775	-	67,775
Future contracts sold	292,613	-	292,613	1,445,254	-	1,445,254
Swap contracts	10,032,918	433,564	10,466,482	7,495,779	104,380	7,600,159
Option contracts purchased	-	-	-	140,913	-	140,913
Option contracts sold	-	-	-	154,482	-	154,482
	10,325,531	433,564	10,759,095	9,304,203	104,380	9,408,583
Index option related contracts						
KOSPI 200 futures	45,757	-	45,757	21,499	-	21,499
Option contracts purchased	207,352	-	207,352	94,736	-	94,736
Option contracts sold	1,047,215	-	1,047,215	130,152	-	130,152
	1,300,324	-	1,300,324	246,387	-	246,387
	₩ 42,153,449	433,564	42,587,013	32,390,559	106,267	32,496,826

Gain or loss on valuation of derivative for the year ended December 31, 2005 and the related accumulated gain or loss on them are as follows:

(In millions of Won)

	Valuation gains or losses (I/S)(*1)						Valuation gains or losses (B/S)	
	Trading		Hedging		Total			
	Gains	Losses	Gains	Loss	Gains	Losses	Assets	Liabilities
Foreign currency related contracts								
Forward contracts	₩ 210,151	151,498	-	-	210,151	151,498	228,681	346,571
Future contracts purchased	-	-	-	-	-	-	-	-
Swap contracts	34,153	44,402	-	-	34,153	44,402	171,230	94,233
Option contracts purchased	-	18,557	-	-	-	18,557	15,773	-
Option contracts sold	22,179	-	-	-	22,179	-	-	11,237
	266,483	214,457	-	-	266,483	214,457	415,684	452,041
Interest rate related contracts								
Swap contracts	23,100	22,582	5,876	10,119	28,976	32,701	74,648	95,767
Option contracts purchased	-	88	-	-	-	88	-	-
Option contracts sold	348	-	-		348	-	-	-
	23,448	22,670	5,876	10,119	29,324	32,789	74,648	95,767
Index option related contracts								
Option contracts purchased	14,630	15,301	-	-	14,630	15,301	6,490	-
Option contracts sold	1,981	1,747	-	-	1,981	1,747	-	105,129
	16,611	17,048	-	-	16,611	17,048	6,490	105,129
	₩ 306,542	254,175	5,876	10,119	312,418	264,294	496,822	652,937

*(*1) Included in gain and loss on foreign currency transactions which is treated as other operating income and expenses.*

Gain or loss on valuation of derivative for the year ended December 31, 2004 and the related accumulated gain or loss on them are as follows:

(In millions of Won)

	Valuation gains or losses (I/S)(*1)						Valuation gains or losses (B/S)	
	Trading		Hedging		Total			
	Gains	Losses	Gains	Loss	Gains	Losses	Assets	Liabilities
Foreign currency related contracts								
Forward contracts	₩ 250,212	431,041	-	-	250,212	431,041	391,399	555,586
Swap contracts	194,297	110,201	-	-	194,297	110,201	215,632	128,386
Option contracts purchased	30,289	-	-	-	30,289	-	34,330	-
Option contracts sold	-	27,793	-	-	-	27,793	-	33,416
	474,798	569,035	-	-	474,798	569,035	641,361	717,388
Interest rate related contracts								
Swap contracts	56,742	71,117	1,951	7,692	58,693	78,809	96,922	111,917
Option contracts purchased	-	423	-	-	-	423	88	-
Option contracts sold	1,276	-	-	-	1,276	-	-	348
	58,018	71,540	1,951	7,692	59,969	79,232	97,010	112,265
Index option related contracts								
Option contracts purchased	7,289	54	-	-	7,289	54	191	-
Option contracts sold	66	1,722	-	-	66	1,722	-	1,750
	7,355	1,776	-	-	7,355	1,776	191	1,750
	₩ 540,171	642,351	1,951	7,692	542,122	650,043	738,562	831,403

*(*1) Included in gain and loss on foreign currency transactions which is treated as other operating income and expenses.*

The above transactions with respect to securities and bonds are for the purpose to hedge risks from changes in exchange rates or interest rates, and to generate profits from trading derivative instruments.

Outstanding hedging transactions above include both derivative transactions accounted for using hedge accounting treatment and those held for the purpose of hedging risk. As of December 31, 2005, hedged items consist of securities and bonds, and risks from change in fair values are hedged by interest rate swaps. Based on the valuation of the hedged items under fair value hedge accounting, gains and losses on valuation of securities amounting to ₩1,053 million and ₩3,656 million, respectively, and gains and losses on valuation of bonds amounting to ₩9,067 million and ₩2,220 million, respectively, have been accounted for as gains and losses on foreign currency transactions for the year ended December 31, 2005.

(c) Litigation

The Bank is in litigation as the plaintiff or the defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩404,855 million (4,615 cases) and ₩66,102 million (147 cases), respectively, as of December 31, 2005. The Bank recognized ₩4,767 million of other liability related to these lawsuits. The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations.

Also the Bank had floating rate bonds of US$7,000 thousand (book value US$3,500 thousand) issued by Pacific Elephant Fund, and made a guarantee-payment amounting to US$10,112 thousand (US$10,112 thousand of provisions) in association with the default of Pacific Rainbow fund for which the Bank has provided guarantee. The Bank brought a case to court in relation to the breach of performance of commitment against the Dongbuanam Semiconductor. On October 27, 2005 compulsory arbitration by court was determined.

According to the arbitration, Dongbuanam semiconductor Inc. is to repay US$4,382 thousand with unequal installment on floating rate bond issued by Pacific Elephant Fund for 16 years from 2005 to 2020, and the Bank recognized aforementioned amount as receivables in foreign currency. The difference between aforementioned amount and the book value amounting to US$882 thousand was accounted for as recovery of impairment losses on available-for-sales securities. Payment of US$14,369 thousand on behalf of the Pacific Rainbow Fund will be repaid by Dongbuanam semiconductor Inc. with an unequal installment for 16 years from 2005 to 2020. Above repayment related to Pacific Elephant Fund is to be distributed to Shinhan merchant bank, Choongang Merchant Bank and the Bank at the rate of amount of principal according by mutual agreement on January 10, 2006. The Bank recognized US$7,138 thousand, distributed amount at the rate of amount of principal, as account receivable in foreign currency, and reversed US$7,138 thousand of related provision. Also the guarantee-payment amounting to US$2,974 thousand which cannot be repaid by Dongbuanam semiconductor Inc. was charged off.

As of December 31, 2005 the Bank recognized US$11,315 thousand of account receivable in foreign currency excluding US$205 thousand of repayment during 2005 and US$2,009 thousand of provision related to aforementioned receivables. The actual loss may differ from the provision for account receivable losses set by the Bank.

(d) Asset Backed Securitization

On March 30, 2001, the Bank sold certain non-performing loans of leasing companies amounting to ₩589,175 million to a Special Purpose Company ("5th SPC") and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively.

On June 29, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company ("6th SPC") and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank provided deposits equivalent to ₩40,800 million as collateral to Kookmin Bank.

On November 29, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company ("7th SPC") and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the written contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets or when the debtor delayed the payment of the principal for more than six months. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within seven business days from written notification.

On December 9, 2003, the Bank sold certain non-performing loans amounting to ₩155,391 million to a Special Purpose Company ("8th SPC") and received ₩60,000 million and ₩59,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On June 17, 2004, the Bank sold certain non-performing loans amounting to ₩206,442 million to a Special Purpose Company ("9th SPC") and received ₩80,000 million and ₩70,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On September 17, 2004, the Bank sold certain non-performing loans amounting to ₩147,464 million to a Special Purpose Company ("10th SPC") and received ₩55,000 million and ₩45,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS").

On June 13, 2005, the Bank sold certain non-performing loans amounting to ₩207,886 million to a Special Purpose Company ("11th SPC") and received ₩80,000 million and ₩65,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩6,619 million was recognized as a gain on disposal of loans for the year ended December 31, 2005.

On November 28, 2005, the Bank sold certain non-performing loans amounting to ₩178,587 million to a Special Purpose Company ("12th SPC") and received ₩70,000 million and ₩66,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩12,117 million was recognized as a loss on disposal of loans for the year ended December 31, 2005.

According to the business transfer agreement (the "Agreement) of 8th, 9th, 10th, 11th and 12th SPC, the transferee and the trustee could claim the performance of transferor's responsibility on the collateral pursuant to the contract amount when (1) the securitized assets are considered unqualified as of the transfer or confirmed date under the conditions of the written contract, (2) it was determined that senior rights on the collaterals stated in the register book were not identified at the time of the due diligence on the securitized assets, or (3) additional senior rights are identified according to the laws or regulations omitted from the due diligence report (only if the laws or regulation were in effect prior to the confirmation date of the securitized assets). The Bank is obligated to perform its responsibility on the collateral within three business days from the date the request is made by transferee or trustee.

The Bank's potential exposures in relation to the indemnification on the securities assets for 5th, 6th, and 7th SPC are 27%, 34% and 36% of the total proceeds, respectively which is equivalent to US$84,000 thousand (₩85,092 million), ₩130,000 million, and ₩26,000 million, respectively.

(e) Loans Sold under Repurchase Agreements

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

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

As of December 31, 2005, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩201,292 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

(f) Debt to Equity Swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including payment guarantees) and available-for-sale securities including debt-to-equity securities with respect to Hynix Semiconductor Inc. ("Hynix") amount to ₩178,886 million and ₩1,426,115 million, respectively, as of December 31, 2005. As of December 31, 2005, the Bank's loan for Hynix is classified as normal.

On April 21, 2005, Hynix and the Creditors' Council agreed to the condition that includes a certain amount of external financing and a new agreement to satisfy for an early termination of Joint Management with the Creditors' Council. Hynix fulfilled the condition and terminated Joint Management with the Creditors' Council on July 12, 2005 after achieving more than ₩1.0 trillion of external financing and the new agreement on which Hynix is required to have prior discussions with Creditors' Council on management appointment, issues related with M&A, and other significant management decisions which may have great influence to Hynix. In addition, the Bank sold 18,416 thousand shares of Hynix, which is permitted to sale in over-the-counter market by Financial Institution Creditors Committee, at ₩350,146 million on October 26, 2005.

KEB Capital Co., Ltd. ("KEBC"), the Bank's consolidated subsidiary, sold 681 thousand shares of Hynix at ₩12,942 million on October 26, 2005.

(g) Loans to Workout Companies

As of December 31, 2005, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩965,300 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank. No adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

(h) Debt to Equity Swap of SK Networks Co., Ltd.

As of December 31, 2005, the Bank has loans of ₩171,423 million and available-for-sale securities of ₩130,461 million with respect to SK Networks Co., Ltd. and set allowance for loan losses and payment guarantees of ₩16,780 million in association with these loans. The actual loss may differ from the allowance for loan losses and impairment loss set by the Bank.

(i) Commitments Related to Credit Card Business

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

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

(j) Asset Backed Securitization Related to Credit Card Business

Credit card receivables from cardholders provided to SPCs as of December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Assets provided	Transferred (entrusted) amount	Date of transfer (entrusted)	Remaining balance
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	Cash advances and revolving purchases	₩ 403,804	2003.01.13	₩ 184,375

The Bank is responsible for possible delinquencies in the underlined assets of the SPCs and additional assets should be provided to the SPCs if the remaining balances of the underlined assets fall below the stipulated amounts.

Additional assets which had been transferred or entrusted to the SPCs up to December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2003.5.16~2004.7.30	8	125,874	₩ 301,348	Trust type

Assets which had been extracted from SPC and transferred back to or repurchased by the Bank up to December 31, 2005 are summarized as follows:

(In millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2004.3.29~2005.4.11	3	104,514	₩ 158,739	Written-off/ overdue loan

Also, profits from the SPC 7, net of the expenses of the Trust for each settlement period, are accounted for as interest income by the Bank.

The senior bonds and the subordinated bonds of the SPC 7th, amounting to ₩100,000 million and ₩50,500 million respectively, wewre repaid on January 23, 2006, after the balance sheet date. The asset backed securitization contracts expired by recovering the trusted assets amounting to ₩187,362 million from the Kookmin Bank and the SPC 7th is in liquidation.

(k) Indemnification Obligations regarding the Share Subscription Agreement by and between the Bank and the LSF-KEB Holdings, SCA

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

Duration of Indemnification Obligations is as follows:

- *Purchaser losses, excluding those mentioned below, may be indemnified until 18 months following the Closing Date (*3).*

- *Purchaser losses arising as a result of fraud or intentional misrepresentation by the Bank may be indemnified at the Closing Date and continue to be in full force and effect until three years following the Closing Date.*

- *Purchaser losses related to tax matters may be indemnified at the Closing Date and continue to be in full force an effect until five years following the Closing Date.*

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

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

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

*(*1) Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank's representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank's covenants or agreements in the Share Subscription Agreement.*
*(*2) Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.*
*(*3) Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.*

(20) The Equity Linked Special Incentive

On July 15, 2005, the Bank granted the equity linked special incentive to employees for the purpose of motivation to improve a long-term result. Aforementioned incentive is one time incentive which is linked with the Bank's stock price and net asset per share, and can be eligible for the incentive for three years after two years from the effective date. The Bank recognized ₩8,947 million as compensation expense for the accomplishment over the long period related to above bonus and ₩8,943 million is recognized as long-term payables.

(21) Fees and Commissions

Fees and commissions for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Commissions received	₩	416,445	514,194
Guarantee fees		20,477	24,110
Early termination penalty fees		120	237
Others		116	103
	₩	437,158	538,644

(22) Commission Charges

Commission charges for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Service fees	₩	193,091	226,302
Others		17,901	13,905
	₩	210,992	240,207

(23) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Salaries	₩	445,766	418,512
Employee benefits		177,107	102,122
Provision for retirement and severance benefits		60,942	55,990
Depreciation		95,305	112,434
Amortization		19,935	9,445
Tax and dues		38,884	33,378
Rent		38,637	37,950
Entertainment		13,530	10,705
Advertising		33,184	17,782
Others		163,170	155,719
	₩	1,086,460	954,037

(24) Income Taxes

(a) The Bank is subject to a number of income taxes based on taxable earnings which result in the following normal tax rates:

Taxable earnings	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

Effective in December 2003, the Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%.

(b) The components of income tax expense (benefit) for the years ended December 31, 2005 and 2004 are summarized as follows:

(In millions of Won)

	2005	2004
Current	₩ 22,112	21,033
Change in deferred taxes due to temporary differences	(168,754)	(262)
Change in deferred taxes due to loss carry forward	(134,410)	-
Income taxes directly applied to shareholders' equity	-	-
	₩ (281,052)	20,771

(c) Details on adjustments for certain differences between amounts reported for financial accounting and income tax purposes for the years ended for December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005		2004	
	Temporary differences	Not temporary differences	Temporary differences	Not temporary differences
Inclusion in gross revenue and exclusion from loss				
Allowance for guarantees	₩ 40,676	-	₩ 18,982	-
Interest not recognized in prior year	100,561	-	161,874	-
Valuation of trading securities	460,630	-	605,979	-
Valuation of available-for-sales securities	28,477	-	37,558	-
Valuation of derivatives instrument	42,285	-	1,030,929	-
Other allowance for possible losses	236,673	-	68,368	-
Taxes and dues	-	-	-	9,451
Others	116,829	21,703	26,649	211,657
	1,026,131	21,703	1,950,339	221,108
Inclusion to loss and exclusion from gross revenue				
Allowance for guarantees in prior year	18,982	-	54,200	-
Overaccrued allowance for loan losses in prior year	-	-	1,774,709	-
Interest not recognized	114,307	-	100,561	-
Valuation of securities	736,063	-	953,327	-
Valuation of held-to-maturities	38,650	-	19,733	-
Valuation of derivatives instrument	-	-	944,720	-
Debt-to-equity securities converted in prior year	179,120	-	14,747	-
Present value discount	8,443	-	11,401	-
Dividend on securities	-	4,421	-	2,431
Gains from liabilities exempted	-	-	-	16,174
Taxes and dues	-	294,201	-	-
Others	114,372	7,017	152,808	7,923
	1,209,937	305,639	4,026,206	26,528

(d) Details on deferred tax asset and liabilities and income taxes directly applied to shareholders' equity are as follows:

(In millions of Won)

	Amount	Income Taxes	Deferred tax assets and liabilities
Valuation of available-for-sales securities	₩ 1,939,744	-	(533,430)
Valuation of held-to-maturity securities	(926)	-	255
Unrealized loss on investment in affiliates	(1,172)	-	322
Capital adjustment of consolidated subsidiaries	5,048	-	(1,388)
	₩ 1,942,694	-	(534,241)

(e) The changes in temporary differences, deferred tax assets and deferred tax liabilities are as follows:

(In millions of Won)

	Temporary Diffreences					Deferred tax assets (liabilities)				
	Jan.1. 2005 (*1)	Translation adjustment	Increase	Decrease	Dec.31. 2005	Jan.1. 2005	Translation adjustment	Increase	Decrease	Dec.31. 2005
Valuation of Securities	₩ 733,067	2,994	460,630	736,061	460,630	201,593	824	126,673	202,417	126,673
Valuation losses of										
Held-to-maturity securities	44,259	(367)	22,974	30,321	36,545	12,171	(101)	6,318	8,338	10,050
Valuation gains of										
Held-to-maturity securities	(11,499)	41	(8,330)	(5,503)	(14,285)	(3,162)	11	(2,290)	(1,513)	(3,928)
Interest not recognized	(100,561)	-	(114,307)	(100,561)	(114,307)	(27,654)	-	(31,434)	(27,654)	(31,434)
Allowance for guarantees										
and acceptance	18,982	-	40,676	18,982	40,676	5,220	-	11,186	5,220	11,186
Present Value discount	63,116	-	-	8,443	54,673	17,357	-	-	2,322	15,035
Valuation of derivatives	108,367	-	150,652	108,367	150,652	29,801	-	41,429	29,801	41,429
Gain from trading of derivatives	(514)	-	(1,504)	(514)	(1,504)	(141)	-	(414)	(141)	(414)
Loans charged off	453,463	-	-	179,120	274,343	124,702	-	-	49,258	75,444
Deferred tax asset										
(foreign branches)	(531)	-	-	(531)	-	(146)	-	-	(146)	-
Deferred loss foreign currency										
translation	(3,112)	-	-	(3,112)	-	(856)	-	-	(856)	-
Others	221,784	-	349,300	112,824	458,260	60,991	-	96,058	31,027	126,022
Valuation gains of securities	(2,039,334)	-	-	-	(2,039,334)	(560,817)	-	-	-	(560,817)
Valuation losses of securities	79,768	-	-	-	79,768	21,936	-	-	-	21,936
	(432,745)	2,668	900,091	1,083,897	(613,883)	(119,005)	734	247,526	298,073	(168,818)
Loss carry-forward	1,925,109	-	-	1,461,584	463,525	529,405	-	-	401,936	127,469
Tax deduction	-	-	-	-	-	6,941	-	-	-	6,941

Total deferred tax liabilities	(34,408)
Deferred tax assets (foreign branches)	270
Decrease of deferred tax liabilities due to eliminate the investment and stockholders' equity	4,640
Deferred tax assets (Subsidiaries)	7,681
Deferred tax liabilities (Subsidiaries)	(1,683)
Set off amount	(23,500)
Deferred tax assets as of Dec. 31, 2005 (*2)	8,240
Deferred tax liabilities as of Dec. 31, 2005	(31,740)

*(*1) This amount included additional retention resulted from tax adjustment after appropriation of prior period's financial statements*

*(*2) This amount was not set off with deferred tax liabilities because it was related with foreign branches and was different from others in tax authority.*

(f) The Bank expected deductible temporary differences (including the carry-forward of unused tax losses) could be utilized by sufficient taxable temporary differences and future taxable income in the same period. Accordingly, the Bank recognized a tax benefit in amount of ₩300,553 million which was reflected by changes of temporary differences including unrecognized deferred tax assets till 2004.

(g) Change in Accounting Policy

Pursuant to SKAS No. 16 "Income Taxes" , effective January 1, 2005, deferred taxes are recognized on the temporary differences related to unrealized gains or losses on investment securities that are reported as separate component of capital adjustment. As a result of such change, capital adjustment decreased by ₩534,241 million and deferred assets and liabilities increased by ₩577 million and ₩534,818 million, respectively. These changes did not have any impact on the reported net income and prior year's financial statements were not restated by SKAS No. 16 "Income Taxes".

(h) Expiration dates allowed for tax loss carry forwards held by the Bank in accordance with Korean corporate income tax law to reduce the future taxable income are as follows:

(In millions of Won)

Year incurred	Jan. 1, 2005	Deduction	Dec. 31, 2005	Expiration
2000	₩ 712,269	(712,269)	-	2005
2001	75,318	(75,318)	-	2006
2004	1,137,522	(673,997)	463,525	2009
	₩ 1,925,109	(1,461,584)	463,525	

(25) Earnings Per Share and Ordinary Earnings Per Share

Basic earnings per share and ordinary earnings per share for the years ended December 31, 2005 and 2004 are calculated as follows:

(a) Earnings Per Share

(In millions of Won)

	2005	2004
Net income	₩ 1,933,891	526,635
Preferred stock dividends	-	-
Net income allocated to common stock	1,933,891	526,635
Weighted average number of common shares outstanding (in shares)	644,906,826	643,939,890
Basic net earnings per share (in Won)	₩ 2,999	818

(b) Basic Ordinary Earnings Per Share

(In millions of Won)

	2005	2004
Net income	₩ 1,933,891	526,635
Extraordinary gain	(16,690)	(17,674)
Extraordinary loss	-	-
Income tax related to extraordinary income	-	-
Ordinary income allocated to common stock	1,917,201	508,961
Weighted average number of common shares outstanding (in shares)	644,906,826	643,939,890
Basic ordinary earnings per share (in Won)	₩ 2,973	790

Diluted earnings per shares and diluted ordinary earnings per share for the years ended December 31, 2005 and 2004 are calculated as follows:

(c) Diluted Earnings Per Share

(In millions of Won)

	2005	2004
Net income allocated to common stock	₩ 1,933,891	526,635
Compensation expense associated with stock options	100	-
Preferred stock dividends	-	-
Diluted net income (loss)	1,933,991	526,635
Weighted average number of common shares before diluted (in shares)	644,906,826	643,939,890
Diluted shares	346,625	143,322
Diluted weighted average number of common shares outstanding (in shares)	645,253,451	644,083,212
Diluted earnings per share (in Won)	₩ 2,997	818

(d) Diluted Ordinary Earnings Per Share

(In millions of Won)

	2005	2004
Ordinary income allocated to common stock	₩ 1,933,991	526,635
Extraordinary gain	(16,690)	(17,674)
Extraordinary loss	-	-
Income tax related to extraordinary income	-	-
Diluted ordinary income (loss) allocated to common stock	1,917,301	508,961
Weighted average number of common shares before diluted (in shares)	644,906,826	643,939,890
Dilutive shares	346,625	143,322
Diluted weighted average number of common shares outstanding (in shares)	645,253,451	644,083,212
Diluted ordinary income per share (in Won)	₩ 2,971	790

(e) Potential common share information as of December 31, 2005 is as follows:

(In millions of Won)

	Exercise period	Number of common share to be issued upon conversion
Stock options	From March 26, 2003 to June 29, 2010	4,680,120

(26) Statements of Cash Flows

The Bank and subsidiaries consider cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent as of December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Cash on hand	₩	1,396,406	1,266,966
Cash on hand in foreign currencies		263,604	242,356
Deposits in Won		473,103	415,996
Deposits in foreign currencies		990,147	863,913
Marketable securities		170,311	9,330
	₩	3,293,571	2,798,561

Significant non-cash flow transactions for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

		2005	2004
Decrease in loans by charge-off	₩	588,761	2,894,081
Gain/loss on available-for-sale securities (capital adjustment)		804,818	323,044
Domestic exchange settlement		3,402,976	2,507,072

(27) Significant Transactions Between the Bank and Subsidiaries

Significant transactions made in the normal course of business between the Bank and subsidiaries during the year ended December 31, 2005 and related account balances as of December 31, 2005 are summarized as follows:

(In millions of Won)

	KEBA	KEBOC	KEBC	KEBDAG	KEBD	KEBFC	Trust	Others	Total
Assets:									
Due from banks									
in foreign currency	₩ -	851	-	2,126	1,047	-	-	-	4,024
Loans in foreign currency	-	-	40,730	470	4,865	-	-	-	46,065
Loans in Won	-	-	24,500	-	-	5,000	-	-	29,500
Others	47,554	-	352	81,528	73,331	-	-	152,680	355,445
	₩ 47,554	851	65,582	84,124	79,243	5,000	-	152,680	435,034
Liabilities:									
Deposits in Won	₩ -	-	42	-	-	15	-	16	73
Deposits in foreign currency	-	-	456	555	220	2,688	-	2,899	6,818
Borrowings in foreign currency	34,851	-	-	54,807	-	-	-	14,984	104,642
Others	-	-	2,025	6,937	38,873	4	179,581	1,695	229,115
	₩ 34,851	-	2,523	62,299	39,093	2,707	179,581	19,594	340,648
Revenues:									
Interest income in Won	₩ -	-	1,091	-	-	290	-	21	1,402
Interest income in foreign currency	271	4	2,777	2,505	2,669	-	-	6,035	14,261
Fees and commissions	372	-	-	2,614	409	677	-	-	4,072
Others	-	-	143	274	-	126	9,908	55	10,506
	₩ 643	4	4,011	5,393	3,078	1,093	9,908	6,111	30,241
Expenses:									
Interest expenses in foreign currency	₩ 459	14	7	3,893	910	126	-	449	5,858
Commission charges in won	-	-	-	-	-	698	-	2,373	3,071
Commission charges in foreign currency	-	-	-	232	-	817	-	-	1,049
Others	-	-	925	-	-	-	1,999	15	2,939
	₩ 459	14	932	4,125	910	1,641	1,999	2,837	12,917

Significant transactions made in the normal course of business between the Bank and subsidiaries during the year ended December 31, 2004 and related account balances as of December 31, 2004 are summarized as follows:

(In millions of Won)

	KEBA	KEBOC	KEBIT	KEBC	KEBDAG	KEBD	KEBFC	Trust	Others	Total
Assets:										
Due from banks										
in foreign currency	₩ 4,425	398	-	-	4,203	7,770	-	-	-	16,796
Loans in foreign currency	10,846	626	-	40,041	78,051	37,624	-	-	167,008	334,196
Loans in Won	-	-	-	4,200	-	-	5,000	-	335	9,535
Others	49,764	-	-	167	443	38,621	-	1,907	5,428	96,330
	₩ 65,035	1,024	-	44,408	82,697	84,015	5,000	1,907	172,771	456,857
Liabilities:										
Deposits in Won	₩ -	-	9,193	494	-	-	30	-	-	9,717
Deposits in foreign currency	-	-	-	-	982	310	5,026	-	2,252	8,570
Borrowings in foreign currency	61,593	82	-	-	151,075	455	-	-	-	213,205
Others	-	-	146	2,026	28,422	44,883	4	97,236	1,312	174,029
	₩ 61,593	82	9,339	2,520	180,479	45,648	5,060	97,236	3,564	405,521
Revenues:										
Interest income in Won	₩ -	-	-	1,060	-	-	311	383	17	1,771
Interest income in foreign currency	31	22	-	978	1,506	1,359	-	-	2,564	6,460
Fees and commissions	-	-	-	-	-	-	638	14,428	-	15,066
Others	-	-	-	146	-	-	-	-	57	203
	₩ 31	22	-	2,184	1,506	1,359	949	14,811	2,638	23,500
Expenses:										
Interest expenses in foreign currency	₩ -	-	960	1	-	-	9	1,707	-	2,677
Commission charges in won	629	16	-	-	3,471	286	-	-	-	4,402
Commission charges in foreign currency	-	-	-	-	206	-	1,481	-	3,259	4,946
Others	-	-	-	-	-	-	-	-	-	-
	₩ 629	16	960	1	3,677	286	1,490	1,707	3,259	12,025

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004

Details of significant receivables and payables among subsidiaries as of December 31, 2005 are as follows:

(In millions of Won)

Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
KEBDAG	Due from banks in foreign currencies	₩ 4,067	KEBA	Borrowings in foreign currencies	₩ 4,067
KEBFC	Deposits of insurance for retirement and severance benefits	597	Trust	Deposit in Won	597
KEBC	Deposits of insurance for retirement and severance benefits	129	Trust	Deposit in Won	129
KEBD	Due from banks in foreign currencies	17	KEBDAG	Deposit in foreign currencies	17
KEBFIS	Other asset	15	Trust	Other liabilities	15
KEBFC	Other asset	7	Trust	Other liabilities	7
KEBA	Due from banks in foreign currencies	6	KEBDAG	Deposit in foreign currencies	6
KEBDAG	Other asset	5	KEBA	Other liabilities	5
		₩ 4,843			₩ 4,843

Details of significant transactions among subsidiaries for the year ended December 31, 2005 are as follows:

(In millions of Won)

Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
Trust	Commission charges in Won	₩ 390	KEBFIS	Fees and commissions in Won	₩ 390
NYF	Interest expenses in foreign currencies	191	KEBOC	Interest income in foreign currencies	191
KEBOC	Interest expenses in foreign currencies	64	NYF	Interest income in foreign currencies	64
Trust	Commission charges in Won	63	KEBFC	Fees and commissions in Won	63
KEBA	Interest expenses in foreign currencies	55	KEBDAG	Interest income in foreign currencies	55
LAF	Interest expenses in foreign currencies	9	KEBOC	Interest income in foreign currencies	9
Trust	Interest expenses in Won	8	KEBFC	Interest income in Won	8
KEBFC	Commission charges in Won	8	Trust	Fees and commissions in Won	8
KEBA	Interest expenses in foreign currencies	5	KEBDAG	Interest income in foreign currencies	5
Trust	Interest expenses in Won	2	KEBC	Interest income in Won	2
KEBDAG	Interest expenses in foreign currencies	1	KEBD	Interest income in foreign currencies	1
LAF	Interest expenses in foreign currencies	1	NYF	Interest income in foreign currencies	1
		₩ 797			₩ 797

(28) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2005 and 2004 are as follows:

(In millions of Won)

	2005	2004
Salaries	₩ 445,766	418,512
Employee benefit	177,107	102,122
Provision for severance benefits	60,942	55,990
Severance for early retirements	3,151	89,592
Depreciation	95,305	112,434
Amortization	19,935	9,445
Taxes and dues	38,884	33,378
Rent	38,637	37,950
	₩ 879,727	859,423

(29) Merger with Korea Exchange Bank Credit Service

As decided at the Board of Directors' meeting held on November 28, 2003, the Bank has determined to acquire Korea Exchange Bank Credit Service Co., Ltd. (KEBCS) on February 28, 2004, in which the Bank has a 68.6% of ownership interest.

The Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders list as of February 28, 2004, according to the merger agreement. The total number of shares distributed to such KEBCS shareholders amounted to 5,981,895 shares.

Prior to acquisition of the remaining 31.4% of KEBCS, the Bank consolidated the financial statements of KEBCS and recorded a minority interest for the portion not owned by the Bank. Due to the acquisition of remaining shares of KEBCS, the minority interest amounting to ₩35,445 million was reflected to the accumulated deficit for 2005. The par value of common shares of the Bank was ₩29,909 million and reflected as a capital adjustment.

KEBCS was initially established on May 19, 1988, in accordance with Credit Specialized Finance Business Act, as Korea Exchange Bank Credit Card Co., Ltd. with the contribution from the Bank at with the objective to formulate a credit based society, provide convenient financial service for customers and further promote the domestic economic development. The name of Company was changed to KEBCS on January 1, 1992, and its core business - credit card issuance, usage, and payment service - was extended to installment finance service through M&A with Korea Exchange Bank Installment Finance Co., Ltd. on January 1, 1999. KEBCS was listed on Korea Stock Exchange on December 21, 2001.

As of December 31, 2003, KEBCS had 200 million (par value ₩5,000) of authorized shares and the paid-in capital amounts to ₩319,500 million (63,900 thousand shares of common stock, par value ₩5,000). As of February 28, 2004, the Bank was the largest shareholder of KEBCS and owned 43,838,938 shares amounting to 68.6% of total equity.

Total assets and liabilities of KEBCS as of February 28, 2004 were ₩3,063,203 million and ₩3,982,986 million, respectively.

ORGANIZATION CHART

As of March 13, 2006

3 Banks
9 Groups
27 Departments
37 Divs. 101 Teams

- General Meeting of Shareholders
- Board of Directors
  - Channel Development Committee
  - Compensation Committee
  - Risk Management Committee
  - Audit Committee
    - Audit & Examination Div
  - Outside Director Candidate Recommendation Committee
- President & CEO
  - Compliance Office
  - Legal Affairs Div.
  - Global Corporate Bank
    - Global Products Dept.
    - Corporate Group
    - Int'l Dept.
    - World Corporate Group
      - Large Corporate Support Dept.
    - Global Markets Dept.
  - Retail Bank
    - PB Marketing Support Dept.
  - Card Bank
  - Credit Management
    - Special Credit Management Dept.
    - Card Credit Management Dept.
  - Finance
  - Human Resources
  - Communications
    - External Relations Dept.
  - Service Delivery
    - Service Delivery Dept.
  - Information & Technology
  - Business Process Development Dept.
  - Risk Management

Board of Directors

Standing Directors

Robert E. Fallon
Chairman

Richard F. Wacker
President & CEO

Jang, Myoung-Kee
Deputy President & CCO

Outside Directors

Ellis Short
Vice President, Lone Star

Paul Yoo
President, Lone Star Advisors Korea

Michael D. Thomson
General Counsel-Asia, Lone Star

Klaus M. Patig
Member of BOD, Commerzbank AG

Lee, Gyu
Former Deputy President at KEXIM

Park, Hyo-Min
Former General Manager of Currency Issue Dept. at BOK

Managing Directors

William H. Roelle
Senior Managing Director

Kim, Hyoung-Min
Senior Managing Director

Hyun, Yong-Goo
Managing Director

Kevin W. Kneebone
Managing Director

Lee, Nak-Keun
Managing Director

Suh, Choong-Suk
Managing Director

Jun, Dong-Yul
Managing Director

Noh, Chan
Managing Director

Yoon, Jong-Ho
Managing Director

Jhun, Joong-Gyu
Managing Director

Chun, Sung-Hun
General Counsel

Choi, Myung-Hee
Auditor

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Asia
Senior Manager : Kim, Sang-Sup
Tel : 82-2-729-8538

Western Europe & Africa
Senior Manager : Lee, Joo-Yun
Tel : 82-2-729-0464

Middle East, Eastern Europe & Germany
Manager : Choi, Sung-Ho
Tel : 82-2-729-0465

Oceania
Assistant Manager : Kim, Kyoung-Hyoun
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Korean Banks
Senior Manager : Jung, Chang-Goo
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Multi-national Corporate Division

General Manager : Kim, Dae-Hwan
Tel : 82-2-729-0266

German, Swiss, Denmark, Norway
Maketing Manager : Cho, Sung-Goo
Tel : 82-2-729-0291

USA I, Asia, U.K.
Maketing Manager : Han, Sang-Gwa
Tel : 82-2-729-0919

Europe II, USA II
Maketing Manager : Cho, Yong-Sung
Tel : 82-2-729-0920

FDI Consulting Desk
Senior Manager : Lee, Jae-Sung
Tel : 82-2-729-0288

Manager : Kim, Hyun-Sik
Tel : 82-2-729-0834

FDI Consultant : Kim, Sung-Won
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Investment Banking Division

Head of Investment Banking Division :
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P/F, S/F, M&A
Head of Dept Capital Market : Cho, In-Kyun
Tel : 82-2-729-0557

Project Finance
Chief Manager of Project Finance Team :
Park, Seung-Kil
Tel : 82-2-729-0622

Structured Finance
Chief Manager of Structured Finance Team :
Lee, Hoa-Sun
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M&A
Chief Manager of M&A Team :
Stan S.H. Lee
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C/F, SOC, R/E
Head of Corporate Finance/SOC/Real
Estate Team : Lee, Jae-Hak
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Corporate Finance
Chief Manager of Corporate Finance Team :
Park, Hyung-Kook
Tel : 82-2-729-0556

SOC
Chief Manager of SOC Team :
Han, Sang-Han
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Real Estate
Chief Manager of Real Estate Team :
Choi, Yun-Hyun
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FX trading

Head of FX Dealing Team : Yang, Jin-Young
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Chief Dealer : Lee, Sang-Bae
Tel : 82-2-729-0476

Chief Dealer : Lee, Kang-Kon
Tel : 82-2-729-8382

Chief Dealer : Koo, Kil-Mo
Tel : 82-2-729-0507

Treasury Division

General Manager : Lee, Hyung-Soo
Tel : 82-2-729-0531

Medium & Long-Term Financing
Head of Foreign Currency Treasury Team :
Park, Jun-Sik
Tel : 82-2-729-0365

Senior Manager : Kim, Jee-Soo
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OVERSEAS NETWORK

as of March 31, 2006

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AMERICAS

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as of March 31, 2006

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CORPORATE DATA

as of December 31, 2005

Established : January 30, 1967

Paid-In Capital : KRW3,224,534 Million

Total Issued & Outstanding Stocks : 644,906,826

Stock Exchange Listing : Korea Stock Exchange (KSE)

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