

KOOKMIN BANK
Form 6-K
March 14, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

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

For the month of March 2007

Kookmin Bank

(Translation of registrant's name into English)

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

(Address of principal executive office)

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

Form 20-F Form 40-F

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

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

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

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

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

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

Yes No

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

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

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

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

Exhibit 99.1_ Non-Consolidated Audit Report for FY 2006

Exhibit 99.2_Consolidated Operating Results for FY 2006

SIGNATURES

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

Kookmin Bank
(Registrant)

Date: March 14, 2007

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

KOOKMIN BANK

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

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of Kookmin Bank:

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

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

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

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

March 2, 2007

Notice to Readers

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

KOOKMIN BANK

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

(Continued)

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

(Continued)

KOOKMIN BANK

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

See accompanying notes to non-consolidated financial statements.

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. GENERAL:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-consolidated Financial Statement Presentation

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

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

Interest Income Recognition

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

Classification of Securities

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

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

Valuation of Securities

(1) Valuation of Trading Securities

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

(2) Valuation of Available-for-sale Securities

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

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

(3) Valuation of Held-to-maturity Securities

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

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

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

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

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

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

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

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

(6) Reclassification of Securities

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

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

Transfer of Securities

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

Allowance for Possible Losses on Credits

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

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

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

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

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

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

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

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

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

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

Restructuring of Loans

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

Deferred Loan Origination Fees and Costs

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

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Related Depreciation

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

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

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

Intangible Assets and Related Amortization

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

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

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

Valuation Allowance for Non-Business Use Property

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

Recognition of Impairment of Assets

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

Amortization of Discounts (Premiums) on Debentures

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

Bonds under Resale or Repurchase Agreements

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

Contingent Liabilities

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

Accrued Severance Benefits

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

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

Accounting for Derivative Instruments

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

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

Accounting for Stock Options

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

National Housing Fund

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

Accounting for Trust Accounts

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

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

Income Tax Expense

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

Accounting for Foreign Currency Transactions and Translation

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

Application of the Statement of Korea Accounting Standards

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

Reclassification

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

3. CASH AND DUE FROM BANKS:

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

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

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

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

Due from banks in foreign currencies:

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

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

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

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

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

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

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

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

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

4. SECURITIES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Held-to-maturity securities:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Gain on valuation of held-to-maturity securities:

| | | | | | | | |
|------------------------|-------|-----|-------|-------|-------|-------|----|
| Debt securities in Won | (Won) | 426 | (Won) | (Won) | (328) | (Won) | 98 |
|------------------------|-------|-----|-------|-------|-------|-------|----|

Gain on valuation of securities accounted for using the equity method

| | | | | | | | |
|-------|-----|-------|--------|-------|-------|-------|--------|
| (Won) | 948 | (Won) | 15,522 | (Won) | (582) | (Won) | 15,888 |
|-------|-----|-------|--------|-------|-------|-------|--------|

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(15) Securities provided as collateral as of December 31, 2006 were as follows (Unit: In millions):

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

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

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

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

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

5. LOANS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(9) Disposal of loans

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

(10) Credit card receivables as collateral

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

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

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

6. RESTRUCTURED LOANS:

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

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

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243,359

301

4,083

25,374

213,601

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

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

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

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

7. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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8. **FIXED ASSETS:**

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

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

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

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

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

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

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

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

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Equipment and
vehicles

Construction
in progress

155

100,303

(97,799)

2,659

(Won) 2,038,245

(Won) 364,345

(Won)

(Won) 37,497

(Won) 222,382

(Won) (4,739)

(Won) (240)

(Won) 2,137,732

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

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

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

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

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

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

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

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

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

9. OTHER ASSETS:

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

2006

2005

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

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

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

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

10. DEPOSITS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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11. **BORROWINGS:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. DEBENTURES:

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

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

(Won) 24,982,506

(Won) 16,547,987

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

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

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

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

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

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

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

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

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

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

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

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

13. OTHER LIABILITIES:

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

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

14. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:

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

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

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Confirmed acceptances and guarantees in foreign currencies:

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

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

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

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

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

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

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

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

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

| By industry | Confirmed | Unconfirmed | Bills endorsed | Total | Percentage (%) |
|-------------|-----------|-------------|----------------|-------|----------------|
|-------------|-----------|-------------|----------------|-------|----------------|

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

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

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

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

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

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

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

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

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

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

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

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

15. ACCRUED SEVERANCE BENEFITS:

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

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

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

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

16. SUNDRY LIABILITIES:

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

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

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

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

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

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

17. SHAREHOLDERS EQUITY:

(1) Capital stock

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

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

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

(2) Capital surplus

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

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

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

(3) Retained earnings

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

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

2) Legal reserve

The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

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3) Reserve for financial structure improvement (voluntary reserve)

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

4) Retained earnings appropriated for accumulated deficit

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

(4) Capital adjustments

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

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

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

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

(5) Dividends

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

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

18. STOCK OPTIONS:

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

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

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

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

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

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

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

19. CONTINGENCIES AND COMMITMENTS:

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

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

Currency:

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

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

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

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

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

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

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

The Bank holds derivative instruments accounted for as fair value hedges applied to debentures, subordinated bonds, structured bonds and structured deposits. As of December 31, 2006, the Bank recognized (Won)35,828 million of gains and (Won)31,517 million of losses on valuation of fair value hedged items. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

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

| Date of contract | Date of maturity | Amount | Reference entity |
|-------------------------|-------------------------|---------------|-------------------------|
| 2006.8.24 | 2013.12.20 | 10,000 | 116 Global Bonds |

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

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20. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

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

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

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

21. INTEREST REVENUE AND EXPENSES:

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expenses as of and for the years ended December 31, 2006 and 2005 were as follows (Unit: In millions):

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

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

22. GENERAL AND ADMINISTRATIVE EXPENSES:

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

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

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

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

23. NON-OPERATING INCOME AND EXPENSES:

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

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

(Won) 689,085

(Won) 734,695

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

24. INCOME TAX EXPENSE:

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

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

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

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

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

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

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

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Deferred income tax assets

(Won) 379,185

(Won) 353,359

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

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

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

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

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Deferred income tax assets

(Won) 669,058

(Won) 558,847

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

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

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

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

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

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

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

25. EARNINGS PER SHARE:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26. TRUST ACCOUNTS:

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

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

(2) Trust accounts for which the Bank provided the guarantees for a fixed rate of return and/or the repayment of principal consisted of following (Unit: In millions):

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

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

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

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

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

27. SEGMENT INFORMATION:

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

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

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

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

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

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

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

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

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

28. RELATED PARTY TRANSACTIONS:

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

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

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

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

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

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

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

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

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

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

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

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

29. **EMPLOYEE BENEFITS:**

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

30. **CASH FLOWS:**

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

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

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

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

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31. FINANCIAL INFORMATION OF THE FOURTH QUARTER:

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

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

32. APPROVAL DATE OF FINANCIAL STATEMENTS:

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

Independent Accountant's Review Report

on Internal Accounting Control System (IACS)

English Translation of a Report Originally Issued in Korean

To the Representative Director of

Kookmin Bank

We have reviewed the accompanying Report on the Management's Assessment of IACS (the Management's Report) of Kookmin Bank (the Bank) as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Bank's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Bank's management stated in the accompanying Management's Report that based on the assessment of the IACS as of December 31, 2006, the Bank's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

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

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

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

Our review is based on the Bank's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

March 2, 2007

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of Kookmin Bank

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

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

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

February 26, 2007

, Internal Accounting Control System Officer

/s/ Kap Shin

CFO/Senior EVP, Executive Director

, President and Chief Executive Officer

/s/ Chung Won Kang

KOOKMIN BANK AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

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

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

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

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

(Continued)

KOOKMIN BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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