

40th

of Excellence and Beyond

Annual Report 2006



Pusan Bank is headquartered in Busan, the second largest city in South Korea and a major port serving the East Asian region. The bank was founded in October 1967 with a mandate to activate the regional economy and seek balanced development of the national economy. It began operations with capital stock of KRW 0.3 billion and 82 employees, and was listed on the Korean stock exchange in June 1972. It was also selected as a depository by Busan Metropolitan City in November 2000, and the Busan District Court in May 2006.

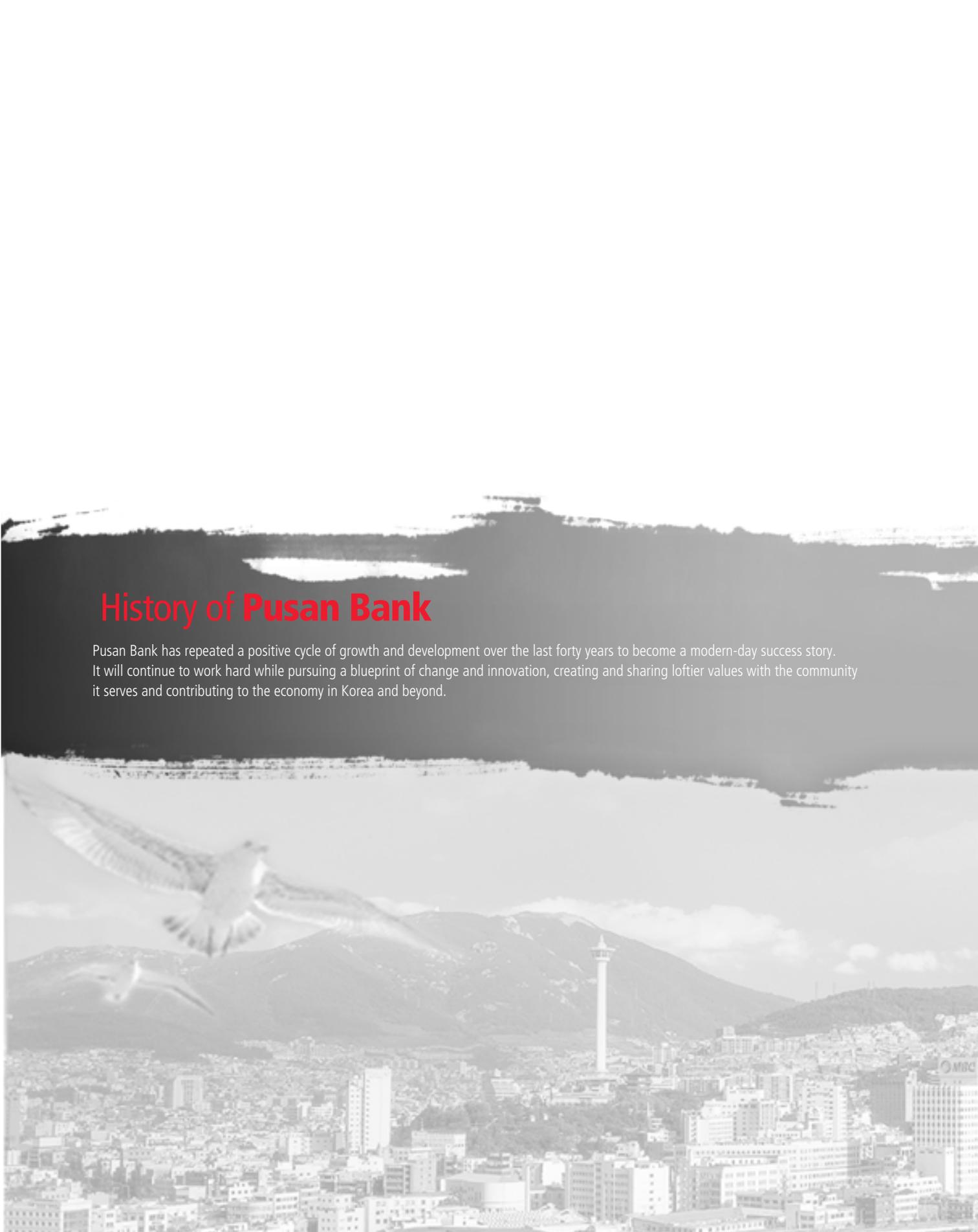
At the end of 2006 the bank recorded total assets of KRW 21.7 trillion, capital stock of KRW 733.4 billion and the largest-ever net income of KRW 183.9 billion, backed by a dedicated staff of 1,905 employees and an efficient network of 179 branches and 41 sub-branches nationwide.

As a representative regional bank in the nation's southeastern economic zone, the bank aspires to attain the goal of "Triple Four" (total assets of KRW 40 trillion, net income of KRW 400 billion and a regional market share of 40%) by 2010. In the long term, it plans to grow into a comprehensive financial group offering a range of innovative products and services, with assets totaling KRW 80 trillion by 2015. Ultimately, Pusan Bank will strive to "create loftier values with the community" it serves, seeking sustainable growth and honoring its commitment to social responsibilities.

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Pusan Bank, 40 Years of Excellence and Beyond!



History of **Pusan Bank**

Pusan Bank has repeated a positive cycle of growth and development over the last forty years to become a modern-day success story. It will continue to work hard while pursuing a blueprint of change and innovation, creating and sharing loftier values with the community it serves and contributing to the economy in Korea and beyond.





Bank Established and Listed on Stock Exchange (1967 ~ 1979)

Pusan Bank was established in Sinchang-dong, Busan, in 1967, heralding the dynamic growth of Busan's regional economy. The photo shows its Sinchang-dong location (now a branch, in the center to the left of a tree), the Busan Commercial Museum (far left) and the Busan Chamber of Commerce in the city's prospering urban district.



Diversified Corporate Activities and Expanded Banking Services (1990 ~ 1999)

The Pusan International Film Festival (PIFF) has expanded and gained a justifiably famous international reputation since its inception in 1996. In particular, the PIFF has provided special momentum for Asian pictures to earn worldwide public recognition. In September 2006, Pusan Bank signed an MOU to serve as an official sponsor of the PIFF and participate in showcasing the unlimited potential of Korean films.



Renewed Growth and Improved Key Business Sectors (1980 ~ 1989)

The nation's second subway system was opened in Busan during the 1980's. This and other city expansion projects activated the regional economy, while helping Busan grow into an advanced shipping centre and marine hub. In December 2006, Pusan Bank donated a variety of books and publications to the subway libraries in an effort to create more pleasant venues for citizens, while also contributing to the region's cultural development.



Creating and Sharing Values for Continued Expansion (2000 ~)

The Asia-Pacific Economic Cooperation summit was held in Busan in November 2005. Pusan Bank made a substantial contribution to the summit's successful hosting, by engaging in publicity activities and encouraging volunteer support from its entire staff. In recognition, the bank was awarded a distinguished service plaque in March 2006 by the Citizen's Solidarity for the Resuscitation of Busan's Economy.

Challenging the Future. Making Changes Today.

In greeting its 40th anniversary, Pusan Bank is primed to achieve a lofty vision of becoming the "first-class bank in the southeastern economic region" by 2010. By seeking out constant changes and innovations, the bank will continue to create a new future while delivering contemporary values to society.

2015

Grow into a comprehensive financial group
serving a broader customer base

Total Assets: KRW 80.0 trillion

2010

Achieve vision of becoming the first-class
bank in the southeastern economic region

Goal: Triple Four

Total Assets: KRW 40.0 trillion

Net income: KRW 400.0 billion

Market Share: 40.0% in Busan

2008

Take off into a new stage of growth

Goal: Triple Three

Total Assets: KRW 30.0 trillion

Net income: KRW 300.0 billion

Market Share: 35.0% in Busan

Challenging for change, we maximize the future as a...

Valuable Supporter,

helping economic development in the region.

As the number one bank in Busan, we will activate the local economy through a broad spectrum of channels including financial support for SME's and the sale of gift vouchers for the reconstruction of conventional markets.



Financial Highlights

Years ending December 31

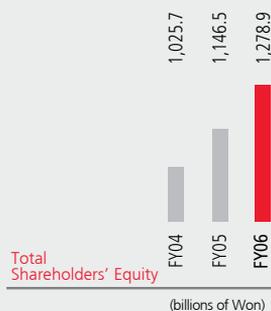
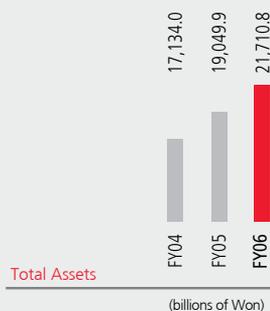
(In billions of Won)

	2006	2005
For the Fiscal Year		
Total Revenues	1,510.5	1,352.9
Total Expenses	1,326.6	1,174.0
Net Income	183.9	178.9
At Year's End		
Total Assets	21,710.8	19,049.9
Total Deposits	14,557.7	13,662.5
Total Loans	14,932.4	12,186.1
Securities	4,918.2	4,871.1
Shareholders' Equity	1,278.9	1,146.5

(In millions of US \$)

	2006	2005
For the Fiscal Year		
Total Revenues	1,624.9	1,335.5
Total Expenses	1,427.1	1,158.9
Net Income	197.8	176.6
At Year's End		
Total Assets	23,355.0	18,805.4
Total Deposits	15,660.2	13,487.1
Total Loans	16,063.3	12,029.7
Securities	5,290.6	4,808.6
Shareholders' Equity	1,375.7	1,318

1) FY2006 : ₩929.60, FY2005 : ₩1,013.00 per US\$1.00



Shareholder Information

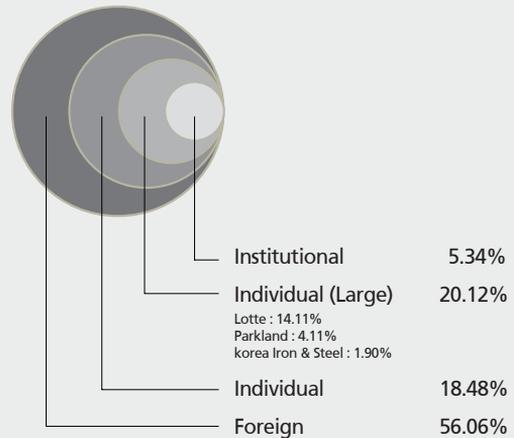
Stock Price



Major Shareholders (as of December 31, 2006)

Shareholder	Percentage (%)
Lotte Confectionery Co., Ltd.	14.11
Capital Research & Global Investors	11.90
Park Land Co., Ltd.	4.11
PL-ABDN GL	2.71
MSIL-SR Global FD	2.41
Korea Iron & Steel Co., Ltd.	1.90
Templeton Global Smaller	1.62
Saudi Arabian Monetary	1.57

Shareholding Structure (as of Dec. 31, 2006)



Message from the CEO



“We are focused on value generation, quality growth,
and greater contributions to the regional economy while
meeting the challenges of tomorrow”

It is a great pleasure to share our outstanding achievements in management and financial earnings for the year 2006. With net income of 183.9 billion Won and 14% asset growth, Pusan Bank remains squarely among the top tier in the FSS Bank Management Assessment. Pusan Bank also won the Golden Award for its philanthropic contributions to social issues, as well as the Presidential Award for taking the lead in extending finance provision to the region's SME's.

As a result of the quality growth strategy in 2006, loan assets grew by 22% and total deposits increased by 13%. Despite this high growth, asset quality in terms of both NPL and delinquency ratio was sustained at less than 1%, while BIS capital ratio also remained strong at 11.05%. Directly pursuant to our policy of maximizing shareholder value, a 420 Won dividend per share was paid to the shareholders for the fiscal year. Net income in 2006 was the highest ever since the beginning of the foundation, and yet the year 2007 is anticipated to be another prosperous season thanks to our increased quality assets and a strong capital base.

In celebration of our 40th anniversary in October of this year, we announced a new long-term strategy: "Vision 2010." This blueprint for the future will see us become the "Leading Bank of Southeastern Korea," while focusing on enhanced value generation and quality growth. We also intend to expand our many contributions to the local economy. As befitting our role as the representative bank of the Busan-Gyeongnam region, we will continue to emphasize the importance of socially responsible management while maximizing our shareholders' value.

We thank you for your continuous support and wish you all the best in the future.



Lee, Jang-ho
Chairman of the Board of Directors & President

Pusan Regional Economic Trends and Forecast

Trends and Highlights in 2006

The year 2006 economic outlook in Busan was marked by a recovery in private consumption on the back of export-led growth, although production in the manufacturing industry weakened at the same time following sluggish domestic demand.

Specifically, production in the manufacturing industry increased by 2.7% year-on-year, presenting a slight contraction from 6.3% in 2005. This was led by brisk growth in the heavy and chemical industries, including assembled metals, machinery and equipment, and other transportation equipment (i.e. vessels). Meanwhile, slowdowns continued to disproportionately affect certain industries, with a particular impact on the food and beverage, fiber, leather, bag, and shoe manufacturing sectors.

Consumer prices advanced 2.4% over the year, as compared to a rise of 2.3% in 2005. Private consumption, which had backed off since 2002, showed a gradual recovery due mainly to limitations on household debt and the heightening stability of employment since 2004. Of note, sales by large-scale retailers achieved a satisfactory level, recovering to a 4.3% rise after a 0.3% dip in 2005.

Exports also recorded a 19.6% growth rate, significantly exceeding the previous year's figure of 5.1%. This was led by the exports of ships, automobiles, steel, metal, machinery and stoked by favorable growth in the world economy. Exports are becoming a cash cow industry in Busan, displaying a steady boost despite worries over national growth trends, as triggered by a worldwide ascent in supply following the expansion of exports by China.

Economic Outlook for 2007

The Busan economy will likely continue to grow, led by exports at the previous year's level, with a steady increase in facility investments and a gradual recovery in private consumption.

Overall production in the manufacturing industry is forecast to expand, likely exceeding 2006 figures. Automobile exports should deteriorate slightly in the wake of a new model introduction by Renault Samsung Motors. Steel exports are not likely to expand substantially, primarily due to the inflow of lower priced Chinese-made products. However, machinery equipment and assembled metals are estimated to maintain their growth trends, following a recovery in domestic facility investments and a boom in upstream industries including shipbuilding. Shipbuilding should also continue to demonstrate satisfactory progress, influenced by a worldwide rise in the volume of maritime goods transportation.

Private consumption should continue recovering slowly, behind a steady increase in per capita consumption in Busan. The improving stability of employment in line with an expansion in the number of full-time employees should also partially contribute to the recovery of consumption.

Exports will likely show solid growth trends, centering around transportation machinery including vessels and automobiles. According to a survey result, 78.3% of company respondents predicted that 2007 exports will increase or remain similar to the previous year's levels.

By sector, ship exports should continue to be satisfactory due to a rise in overseas demand following a worldwide expansion in transportation volume and high oil prices. Automobile exports will



also likely widen, pushed forward mainly on the back of export increase strategies by Renault Samsung Motors.

Other container transaction results are also showing a gradual upturn, as well as facility and construction investments, thereby adding to the positive prospects for 2007.

Strategies for the Activation of Busan's Economy in 2007

Despite its overall positive outlook, Busan's financial status has failed to reach the national average primarily due to the pressures of economic bipolarization.

Accordingly, new regional economic policies are required for 2007 in order to prepare against overall deterioration in the world economy and slowdowns in domestic consumption. For the Busan economy to attain a progressive trend, new growth engines should be consolidated on a proactive basis. First, a broad array of regional development projects should be actively pursued, including the development of Busan-Jinhae economic trade zones, construction of new ports, and re-development of Bukhang (harbor). Secondly, the service industry's added value should be heightened via the advancement of regionally-specialized business pursuits such as harbor logistics, tourism, convention and video sectors. Thirdly, cooperative relations in the southeastern economic zone, encompassing both Ulsan and Gyeongnam, must be bolstered to heighten the effects of financial synergy.



Vision & Strategies

Pusan Bank secured record-high net income and a long-term earnings base in 2006, heightening its regional market share and attracting a new crop of quality customers. These positive outcomes were the direct result of a corporate strategy aimed at concentrating on "growth through reinforced operational capabilities." Together, we retained our depository businesses for the Busan Metropolitan City and the Office of Education, while also receiving the Presidential Commendation at the SME Financial Support Awards.

As we greet our 40th anniversary in 2007, all employees at Pusan Bank are determined to make it the proudest year ever under an ambitious management plan: "Vision 2010." This will take us further along the road toward becoming the foremost bank in the Southeastern economic zone by achieving Triple 4, thereby doubling operational volume and results by 2010.

Creating loftier values alongside our community

Over the past four decades Pusan Bank has enjoyed dramatic growth in volume and value, expanding its service into the Southeastern economic zone including district capital Busan. As a representative enterprise and native bank in this region, we have newly formulated the management ideal of "creating loftier values with our community." Thus, we shall uphold our corporate values, grow "together with the community," and help everyone - including community customers, shareholders and employees - to enjoy an affluent life.

Pusan Bank aspires to be an ideal banking partner, offering first-class values as a "Valuable Supporter" for the community by contributing to our shared economy and social development. We

are also a "Friendly Neighbor" who strives to be pleasant for customers to deal with, and a "Reliable Partner" that shareholders are happy to make long-term investments with. Finally, we are a "No.1 Leader" for our employees and offer a professional environment in which they are satisfied to work.

Ultimately, we aim to ensure our prominence as the "first-class bank in the southeastern economic zone" with a superior edge in our target markets, including Busan and other growing areas such as Gyeongnam and Ulsan.

Challenge for Change

Pusan Bank wishes to be "our bank," sharing and growing together with customers through constant change and innovation while re-establishing our management goals and visions. To this end, we are dedicated to advancing and strengthening our capabilities by securing talented human resources and promoting self-development. In addition, we will aim higher and generate better results through the enactment of creative and innovative ideas under the slogan of "Challenge for Change."

Under this new slogan, our Triple goal blueprint puts great emphasis on the establishment of ambitious financial objectives by 2010, focusing on the improvement of an earnings structure (interest income 80%, non-interest income 20%), backed by our solid regional base. We will then solidify our foothold for another take-off into a regional financial group by 2015.

We believe in "no opportunities without changes, and no accomplishments without challenges." With this in mind, we pledge to retain our regional industry leadership, while materializing our vision to: "create loftier values with our community."



2015 Convert into a comprehensive financial group

- Conclude business diversification (successfully convert into a financial group)
 - Attain more than 30% of non-interest income to total income
 - Complete new construction of a head office approximately by 2012
- >Grow into a comprehensive regional financial group with a powerful constitution and strong competitiveness

2010 Consolidation of new growth engines

- Ensure 40% market share for deposits and 30% for loans in Busan
 - Seek full operational growth in Gyeongnam and Ulsan areas
 - Launch overseas operations (China, Vietnam, etc)
- >Develop into the leading bank in the southeastern economic

2008 A second thrust for expansion

- Beef up basic operations to expand net income
 - Launch overseas offices (China, Vietnam, etc)
 - Build customer-centered corporate ethos
 - Design the new head office (2007~2008)
- >Successfully take off into a new stage of growth

KRW 80 trillion

KRW 40 trillion

KRW 30 trillion

2006 At a Glance

April 17, 2006

Signed Financial Support Agreement For Local Businesses

Pusan Bank signed an agreement with the Busan Chamber of Commerce to offer financial support to local businesses, and will be offering special loans of approximately KRW 50.0 billion on an annual basis. The loan package is aimed at activating the local economy and helping to vitalize business people in the Busan region, who have been facing difficulties in the wake of economic slowdowns, high oil prices and a strong won.

April 21, 2006

Received Grand Prize For Social Contributions At Korea Economic Daily Marketing Awards

Pusan Bank received the Grand Prize for Social Contribution at the Marketing Awards from the Korea Economic Daily. This award recognizes the bank's active pursuit and development of social contribution-related financial products, as well as its donation of more than 1.0% of annual net income to public affairs. This transference is in keeping with the bank's broad principle: "return profits to community".

August 23, 2006

Concluded An Agency Agreement For The Sale Of Conventional Market Gift Vouchers

Pusan Bank and the Busan Merchant Association entered into an agreement on the sale of Busan City conventional market gift vouchers, with the aim of encouraging more shoppers to patronize local markets. The agreement will seek to boost the local economy while helping local merchants recover from a business slump, and will also improve traditional transactions in conventional markets and expand customer bases from diverse social strata.

September 22, 2006

Received Presidential Award At The 12th Reading Culture Awards

Pusan Bank has actively supported the "Busan Book Start (BBS)" campaign launched by the Busan Metropolitan City Office of Education, while steadily unfolding a four-year book exchange exhibition strategy to encourage reading among citizens. In recognition of such efforts the bank received the presidential award at the 12th Reading Culture Awards, organized by the National Library of Korea.

November 22, 2006

Signed An Agreement For Land Purchase Loans With Busan Metropolitan Corporation

Pusan Bank signed an agreement for land purchase loans with the Busan Metropolitan Corporation, a first in the financial industry. The agreement will extend financial support to companies scheduled to move into industrial complexes, including Hwajeon Industrial Complex. With such an active approach to financial aid the bank is not only contributing to the revitalization of local economies, but is also helping to break the financial bottleneck caused by the transfer of business sites by local companies.

December 13, 2006

Received Presidential Award At The 11th SME Financial Support Awards

The SME Financial Support Awards aim to encourage financial support for small and medium-size enterprises (SME's) by rewarding distinguished service institutions and individuals in the field. Pusan Bank received the presidential award (top institutional prize) in recognition of its significant contribution to the settlement of financial difficulties confronting SME's. For example, the bank has supported more than 90.0% of its total won-currency loan increases for SME's as part of its policy to activate small business support.



Challenging for change, we maximize the future as a...

Friendly Neighbor,

meeting the needs and touching the hearts
of our customers

A friendly neighborhood bank, operating 167 branches and 29 departments while sharing its rewards with the community and touching people's hearts.



Social Activities

Pusan Bank Community Service Group

Busan Bank Community Service Group (led by president Lee Jang Ho) was inaugurated in December 13, 2002, as part of the bank's ongoing community service projects. Participated in by all employees, the group has launched a continuous string of community service activities. In August 2001 it was decided that our mission as a native bank is to fulfill community expectations and grow in step with the people. Thus, we began our community service program to better match the growth of our region, and to render services for the development of all. The group is made up of 15 district volunteer service groups, based on Busan Metropolitan City's administrative districts. Its members autonomously engage in social service activities, designating the second Saturday of every month as "Community Service Day". The service groups carefully evaluate the needs of each respective district, and then put their best efforts forward to meet local needs both efficiently and productively. They particularly have undertaken the cleaning of diverse institutions to be of aid to those who have difficulty, including the disabled, senior citizens and children in each district, while providing a general helping hand. Likewise, they are leading the vitalization of a voluntary service culture in the Busan region, most notably by waging environmental cleanup campaigns for public facilities including Haeundae Beach and Gwanganri Park. Other efforts to expand our social service programs include the operation of a social service group for the love of Ulsan since 2005.

Major Community Involvement Activities in 2006

April 10

Visited social welfare institutions to donate approximately 400 bags of rice (7,500+ kg) while extending voluntary service activities.

June 10

More than 200 employees participated in the "Busan Citizen's Stream Cleanup Day" to clean the entire section of Oncheon stream for Community Service Day.

September 9

Visited Somang Rehab Center, a welfare facility for the disabled in Daeyeon-dong, to hold "cooking practice sessions with our disabled neighbors".

September 16

Visited Sungaewon, a nursing foundation located in Jangjeon-dong, to clean its facilities, while offering diverse lessons and programs to educate and nurture toddlers and children.

September 23

Visited the Busan Dementia Center, a sanitarium for senior citizens located in Hakjang-dong, to provide a full-moon rice cake making program and other voluntary services, in preparation for Korean thanksgiving.

October 26

Invited the family members of outstanding voluntary service employees as part of the bank's 39th anniversary events to mark the joy of sharing.

December 6

Held the "Sharing Kimjang" (preparation of pickled vegetables for winter) event to share the warmth of love with neighbors in need.

December 9

Held the "Sharing Briquette" event to help the underprivileged spend the winter in warmth.



Public Service Centers

1. Pusan Bank Cosmos Club

Formed by employees in 1975 to provide an outlet for good deeds and neighborly love, the club has collected donations to fund a variety of activities on behalf of the underprivileged. In recognition of its continued contribution to the community over the last thirty years, the club received official commendation from the Minister of Health and Welfare in October 2003. Particularly, the "home helper dispatch program" which is a community activation project where housewives from low-income brackets visit the homes of senior citizens living alone, as well as the homes of the disabled. During these visits they act as companions and medical attendants, or simply assist with household duties. The program has provided more than 1,000 home helper visits to over 30 households every year thanks to steady support from the Pusan Bank Cosmos Club. The club has also actively participated in the nationwide Christmas Seal fundraising campaign every year in order to draw public attention to the seriousness of tuberculosis. In December 18, 2006, the club donated KRW 5.0 million to the campaign in support of the Korean National Tuberculosis Association. Moving forward, the Pusan Bank Cosmos Club will continue these good works as part of its dedication to community development and neighborly love.

2. True Love Fence Campaign

Pusan Bank has worked on behalf of the "true love fence campaign", a program to build connections with families headed by young offenders, since December 2001. The program aims to support these vulnerable families through one-on-one counseling at the main office and each branch. Relevant activities include life and cultural guidance, as well as career and emotional advice, financial aid and the provision of school supplies.

Other Social Contribution Activities

[Environmental Preservation Activities]

1. Environmental Preservation

As a homegrown bank strongly dedicated to environmental preservation, Pusan Bank has long been committed to 'living green', while actively participating in the "Cultivation of Green Busan campaign". Likewise, we are constantly carrying forward joint environmental preservation projects in partnership citizen's groups, and have been independently raising public funds through the "Green Citizens Bankbook" since 1995.

2. Children's Drawing Contest for the Protection of the Environment

The Children's Drawing Contest for the Protection of the Environment has been successfully held every year for the last 12 years, aiming to teach children about the importance of caring for the environment. Targeting participation by elementary school students in Busan city, the contest has enjoyed a highly favorable response with the average number of entries exceeding 1,300 students every year. At the same time, it is educating future generations about the importance of environmental preservation.

[Culture Promotion Activities]

1. Support for the Pusan International Film Festival (PIFF)

Pusan Bank has been contributing to the growth of Busan into a global cultural city through annual support of the PIFF with funds raised through the PIFF Bankbook. In addition, we actively utilize our region's largest network during the film festival while dispatching our employees to each admission ticket window to provide speedy services.



2. Subway Music Concert for Citizens

Pusan Bank has hosted the “Subway Music Concerts With Citizens” every year on its foundation day. Held at the culture plaza of Seomyeon Station since 2005, this has become a small extravaganza, winning a great response from residents and subway station patrons alike. The concert features a variety of performances including piano quintets, ocarina plays, traditional Swiss yodeling and saxophone ensembles.

[Scholarship Assistance Programs]

1. Financial Quotient Programs

Pusan Bank has operated the “Financial Quotient in Busan” program since July 2003. This program provides systematic education on finance and economics, targeting anyone from elementary schools to collegians, and also to the general public.

2. Reading and Economics Experience School

Pusan Bank runs a children’s reading and economics experience school in league with the Busan Metropolitan City Office of Education and Kookje Daily. The school aims to get children reading while also enabling them to experience economics through financial education. Relevant programs include education on finance and economics, along with reading and culture adventures to visit cultural properties in the south including Busan and Gyeongnam.

[Support for Social and Sports Activities]

1. Support for Social Activities

Pusan Bank is a direct participant in voluntary service activities for relief in the case of emergencies, and operates a community donation fund supported by all staff members. In addition, we assist with relief and restoration activities, and offer financial aid including loans for emergency recovery from flood disasters.

2. Support for the Promotion of Athletics and Sports Events

Pusan Bank sponsors all kinds of regional sports events for the development of athletics and sports in Busan. These include the Busan Athletics Meeting, Busan International Tennis Tournament, MBC Busan Golf Tournament, Kookje Daily National Juvenile Soccer Game, World Junior Weight Lifting Championship, Korea Democracy Foundation Soccer Game, Juvenile National Soccer Game, and Busan City Fencing Federation’s Fencing Competition.



Challenging for change, we maximize the future as a...

Reliable Partner,

doing our best to deliver high returns
to shareholders

A reliable partner bank, realizing record-high net income of KRW 183.9 billion and earning trust from investors, shareholders, customers and the community.

REVIEW OF OPERATIONS

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Corporate Banking



“We carried forward the “3 Up Management Innovation Campaign” to maximize our operational competences and ensure ultimate customer satisfaction through change and innovation. This drive was focused on an improvement in mindset (Mind Up), systems (System Up) and capabilities (Power Up).”

The capital market integration act is slated to take effect in 2008. By stimulating the integration of financial services and the introduction of a wide variety of funds and securities-related products, the act is poised to expand and advance the existing capital market. This should lead to enhanced price competition and aggressive marketing by securities companies. Competition among banks also has intensified in recent years amidst growing concerns over the weakening profitability of debtor companies.

In response to these unstable circumstances, Pusan Bank concentrated on improving its operations in 2006. In preparation for the act’s enforcement, we launched a task force team to analyze its potential effects and establish countermeasures, while providing detailed action plans by division based on a comprehensive master plan. Specifically, we endeavored to retain salary transfer

customers and secure those clients who use Pusan Bank as their major bank. In addition, we placed an emphasis on the development of new deposit products while seeking to differentiate fees and commissions for quality customers in a bid to prevent the breakaways of low-cost deposits.

Other efforts included the invitation of outside advisors, including professors and other highly-trained experts, who were tasked with the regular provision of professional consultations on our management strategies and financial issues.

Meanwhile, in order to bolster our sales capabilities, we reshuffled our head office, streamlining and downsizing our human resources. With this push for efficiency, the bank’s internal organization was reduced to 6 divisions and 32 departments. Together, we reinforced systematic and speedy support for branches; newly introduced a chief information officer (CIO) system to pursue speedier IT operations; and sought the development of new products with market competitiveness.

Furthermore, we carried forward the “3 Up Management Innovation Campaign” to maximize our operational competences through a rigorous program of change and

innovation. In particular, we sought to materialize the ultimate in customer satisfaction with a focus on reforms in mindset (Mind Up), an improvement of systems (System Up) and the enhancement of capabilities (Power Up).

In 2007, we will be devoted to asset growth with an eye on the expansion of continued earnings growth. To this end, we intend to sustain appropriate rates of returns across the board. We will particularly strive to expand our relationship with financially healthy customers; carry out periodical reviews on our pricing policies to maintain net interest margins at an appreciable level; and stringently apply differentiated interest rates according to credit rating. Above all, we are leveraging this bold new management blueprint to attain the visionary promise of our long-term goals: “convert into a comprehensive financial group with total assets of KRW 80.0 trillion by 2015”, and secure a top position with superior competitiveness in the southeastern economic zone including Busan and Gyeongnam.

Retail Banking



"We are dedicated to solid customer relationship management, providing a broad and consistent array of marketing programs and specialized services. At the same time, we are nurturing professional PB specialists to render more sophisticated, higher-quality customer services."

In the retail banking market, Pusan Bank has been focused on expanding its customer base while retaining its profile as a top regional bank. The bank has also sought to continue meeting the endlessly diverse needs of its customers with the finest in products and services.

Deposits

In regard to deposits, we have strongly concentrated on expanding our deposit base. Specifically, we developed and marketed a string of new products to meet the needs of customers and keep pace with agile market environments. New innovations include the "Good Friend" passbook for foreign workers and a social contribution-oriented "I Dream" passbook to support childbirth. We also retained our depository businesses for the Busan Metropolitan City and its Office of Education, and were newly designated as an official depository by the Busan District

Court. Therefore, total deposits climbed by 13.0% year-on-year to reach KRW 17.8 trillion at the end of 2006, and our share in the regional deposit market also expanded significantly.

Lending

As for lending, we substantially extended loans to SME's in the region, mainly by launching an exciting series of groundbreaking new products. These included: "Special SME Loans in Commemoration of the Dasan Financial Award" and "Special Agreement Loans to Busan Businesses" as part of our drive to vitalize the economy in the Busan area. In addition, we actively participated in project financing for regional SOC projects such as, the Yonghoman Bay reclamation project.

In recognition of these confident new technical advancements, we received a Presidential Commendation at the 11th SME Financial Support Awards in December. With regard to performance, total loans surged by 22.7% over the year to KRW 14.9 trillion and our market share also rose noticeably.

Credit Card

Our credit card business was marked by an impressive upturn in the number of check card members in 2006, jumping by 95.8% over the year. Meanwhile, the number of

credit card members and the amount of credit card usage swelled by 29.7% and 11.4%, respectively, to a population of 864,201 (including corporate members) and fiscal total of KRW 2.5 trillion. These enlargements were attributed to an advertising campaign aimed at securing the religion-related niche market.

In 2007, we plan to continue expanding the foundation of our credit card business by attracting a steady rise in the ranks of our new members. Major efforts will include the implementation of a "Best 2007" campaign to attract new credit card members, issuance of a civil servant welfare card and target-based marketing.

Private Banking

Aiming to consolidate our region-focused private banking (PB) operations, we expanded the number of our PB branches to 54 including one PB center. This was executed to more effectively increase our transactions with quality customers through a concentrated approach to one-on-one management. We also strove to form solid relationships with our customers, providing a broad spectrum of marketing programs and specialized services with an eye to retaining our highest value clients.

Investment and Global Banking



“We devised a number of automation processes and systems to address market risk and operational risk, and guarantee high yields through the maintenance of optimal portfolios. We also sought stable growth via investments within our prescribed risk limits.”

Securities Investment & Trading

Pusan Bank has strengthened its institutional ability to confront market changes. This bolstering is aimed at securing the soundness of won-denominated securities and maximizing profitability. We have also properly maintained our operating position to more flexibly tackle changing conditions in the securities market. In addition, we have solidified cooperation and alliances with asset management institutions, allowing for a certain level of discretionary investments and beneficiary certificates operations. As a consequence, we maintained a credit measure within our prescribed range, achieved a 4.81% yield on won-denominated investment securities, and operated non-speculative-grade investments among our held-to-maturity securities. Of particular note, of our corporate bonds totaling KRW 450.3 billion, a full 68.7% were awarded with a rating of “A” or above.

In addition, we strengthened our capital market risk management by seeking stable growth through investments within our prescribed risk limits. As a result of this tightening, we observed market and credit VaR limits, maintained a total risk-weighted asset ratio within the BIS capital adequacy ratio, and operated within the Price Value of Basis Point (PVBP) and duration limits.

In 2007, we will be devoted to establishing an optimal investment portfolio to achieve our target yield of 4.92% from securities. We will also make flexible investments in government bonds and monetary stabilization bonds according to interest rate prospects, as part of our overarching strategy to improve liquidity and BIS ratios, and secure collateralized bonds.

Furthermore, we will seek out and invest in new investment products including structured securities, actively utilize available-for-sale bonds and beneficiary certificates to generate additional gains, and continue increasing investments in high fixed-rate bonds including corporate bonds. We are particularly keen to expand our investments in corporate bonds to KRW 700 billion, surging up from the current level of KRW 460.3 billion.

F/X Trading & Trade Finance

In the foreign exchange sector, we actively induced small and medium-sized import/export businesses in the region, while extending balanced support to these firms as they confronted fluctuations in exchange rates. As a result, we recorded USD 5.8 billion in export/import financing in 2006, marking a rise of 18% over the previous year. At the same time, wire transfers and foreign exchange transactions amounted to USD 1.9 billion. Meanwhile, we concentrated on heightening public awareness by placing advertisements on the bank’s money exchange and remittance services. We also strove to increase our portfolio of corporate customers with a satisfactory credit rating. As a result, we secured 32 new corporate customers (as of October 2006), recording KRW 78 million in foreign exchange dealing operations and KRW 196 million in foreign exchange-related fees and commissions.

Of note, we were able to build and develop a number of automatic programs and systems for the enhancement of our technical operations. These innovations included an automatic reporting system in relation to receipts and assumptions, and an automatic domestic foreign-currency remittance process system via Internet banking.

Risk Management



“We are always committed to predicting, monitoring and managing diverse risks in relation to our operations. Meanwhile, we continue to invest in the development of exhaustive risk management solutions including the capital adequacy ratio computation to comply with the new Basel II Accord.”

Preparations for the Operation of Basel II

Pusan Bank has laid out a series of extensive plans in preparation for the implementation of the New Basel Capital Accord. As an initial step, we completed our first stage project for the new BIS agreements in March 2006. As a result, we secured a string of systems that reflect the Basel II requirements; modified our operational processes to introduce the new BIS agreements; and mirrored the new BIS agreements in our policies.

Secondly, we launched a second ambitious project in October 2006, with the aim of integrating a comprehensive risk-weighted asset computation system. Slated for conclusion by August 2007, the project will satisfy Pillars 1-3 of the new BIS agreements. In this regard, we are constructing credit and market risk-weighted asset computation systems (in preparation for Pillar 1), internal capital

adequacy evaluation systems (Pillar 2), integrated report computation systems (Pillar 3), and operational risk management systems.

Thirdly, we strengthened our loan portfolio management, setting risk management limitations on our newly opened Ulsan and Seoul offices in June 2006, and designating credit risk management according to sector and segment.

As supplementary measures, we built a range of diverse systems to measure credit risks and developed a working database that utilizes new BIS-based risk factors (concluded in November 2006). We also wrote policies for the operation of validation devices on the new BIS-based risk factors, and executed monthly inspections of all new BIS-based QIS and appropriate countermeasures.

In 2007, our strategic goals in this realm will seek to proactively deal with changes in the financial environment, and pursue a preemptive course of risk management. We also intend to establish risk management structures that will meet global standards through the introduction of new capital adequacy reforms. Specifically, we will wrap up the second BIS project in line with our projected work schedule. This project will include the establishment of a risk weighted asset calculation system, a capital adequacy

calculation system, a public announcement report and calculation system, an operational risk management system, and a host of documentation and revised regulations. Likewise, we will carry out preliminary operational risk management through the introduction of a bank-wide Control Self-Assessment (CSA) mechanism. This device will enable the selection of key risk indicators to monitor operational risk and report on monitoring results, support the calculation of capital stock volume via operational standard methods and improve the collection of loss data.

Secondly, we will push for the reconstruction of an ALM system to undertake speedy and timely management decision through shortened analysis cycles (shrinking to daily and weekly from the present monthly schedule), even as we work towards measuring and managing interest rate risks in line with the new BIS accord.

Other plans include conducting reviews of sensitive economic cycle sectors (quarterly), re-developing early warning systems and operating relevant educational sessions throughout the year.

Infrastructure for Management



“Our landmark BPR initiative has led to reduced transaction and task processes, shorter waiting times, heightened service quality, greater customer and employee satisfaction, manpower and cost savings, and improved efficiencies throughout our entire organization.”

BPR (Business Process Re-Engineering)

Pusan Bank introduced a system of business process re-engineering (BPR) in 2003, a first among regional banks in Korea. As of early 2005, this large-scale project was successfully completed and began to translate into concrete profitability. A break-even point was reached in 2006, when all related expenses for consulting, construction, development and other tasks were completely recovered. Since then, it has been turning over a series of substantial profits. Accordingly, our BPR has been benchmarked as a model of success in the financial institution field, due largely to its significant cost efficiency as compared to investment expenses.

The implementation of BPR led to widespread cost reductions through the standardization, concentration and specialization of our operations across the

board. At the same time, it presided over a decline in the possibility of accidents to be generated through the separation of marketing and supplementary operations.

We also secured intellectual property rights by acquiring a patent on our business model, and heightening the efficiency of all branch facilities. Moreover, our BPR initiative has made it easier for Pusan Bank to accommodate disabled employees and hire individuals with special physical requirements. It has allowed branches to sharply reduce loan-related and deposit-related documents into soft files, so that they can better utilize secured spaces for marketing activities and share information on debtors among branches.

The benefits we obtain from our BPR system also include: reduced transaction and task processes, shorter waiting times, heightened service quality, greater customer and employee satisfaction, increased manpower and cost savings, and improved efficiencies throughout our entire organization.

e-Biz

Pusan Bank leveraged a diverse range of events and tools to encourage teller service by persuading customers to opt for safer and more convenient electronic

financial transactions.

As a result, the number of e-Biz transactions in 2006 increased to more than 57.3 million, including firm banking automated transfers, cash management service (CMS) common networks, CMS money collection, school banking, virtual account channels and affiliations with brokerage houses. We plan to continue the focus on generating new e-biz services to guarantee a steady improvement in customer convenience.

Meanwhile, the number of subscribers to our Internet banking services broke the 0.92 million mark. The number of subscribers and users of our electronic banking channels also expanded sharply, as our pool of phone banking customers and cash card holders exceeded 1.29 million and 2.57 million, respectively. As a result, electronic financial transactions (i.e. internet banking, phone banking, ATM and etc.) are now accounting for about 84% of total transactions.

Challenging for change, we maximize the future as a...

Successful Leader,

taking pride in our high-caliber manpower.

A leading bank, demonstrating its top-notch leadership and performance in the region and beyond No.1 in the nationwide. We will continue concentrating on cultivation of specialized manpowers.

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MANAGEMENT'S DISCUSSION & ANALYSIS

Key Financial Data

(Billions of Korean Won, %)

	2006	2005
Operating results		
Operating revenue	1,480.3	1,309.3
Net interest income	617.4	593.1
Operating income	280.9	234.0
Net income	183.9	178.8
Per share data (Won)		
Dividend per common share	420	405
Earning per common share	1,253.0	1,220.0
Profitability ratios		
ROA	0.91	0.99
ROE	15.10	16.34
Net interest margin	3.08	3.34
Net interest spread	3.93	4.16
Balance sheet data at year end		
Total assets	21,710.8	19,049.9
Total loans	14,932.4	12,186.1
Total deposits	14,557.7	13,662.5
Securities	4,918.2	4,871.1
Shareholders' equity	1,278.9	1,146.5
Asset quality ratios		
Loan loss provisions/Substandard & below loans (SBL's)	175.84	162.96
SBL's/Total credit	0.83	0.94
Capital ratios at year end		
Total capital ratio	11.06	12.25
Tier 1 capital	8.09	9.06
Tier 2 capital	3.00	3.22

Overview

The Korean economy was plagued by difficult business conditions in 2006 caused by sluggish domestic demand, arriving despite the presence of favorable activity in exports. The economy appeared to have reached a climax during the first half of the year, but its consolidation continued well into the second half. Exports were in general quite satisfactory, maintaining a two-digit growth note until October. They began to lose power, however, as domestic demand failed to keep step following a slump in private consumption. Quarterly growth also fell, confirming the economic slowdown (6.1% growth in the first quarter, 5.3% in the second and 4.6% in the third). Business conditions have been showing signs of recovery, registering a rise since August 2006, but this resurgence is not likely to lead to an upward trend in the long term.

In spite of this adverse fiscal climate, Pusan Bank either achieved significant improvements in key business indicators or maintained its status at a similar level to 2005 figures.

Specifically, operating revenues increased 13.1%, or KRW 171 billion, year-on-year (YoY) to reach KRW 1,480.3 billion at the end of 2006. Net interest income expanded by KRW 24.3 billion to KRW 617.4 billion, with interest revenues recording higher growth than that of interest expenses.

Net income marginally increased by 2.8%, or KRW 5 billion, to approach KRW 183.9 billion. This was due to a contraction in non-operating income following the payment of honorary retirement benefits, despite a decline in write-offs following a downturn in non-performing loans (NPL's) and delinquency ratios.

As the bank continued to enjoy record-breaking levels of net income, dividends per share also extended to KRW 420, up KRW 15 from KRW 405 in the preceding year.

Return on assets (ROA) edged down 0.08% to 0.91%, following the bank's expanded business volume and a slight increase in net income. Return on equity (ROE) also slipped 1.24% to 15.1%, triggered by the accumulation of retained earnings on a rise in net income.

Net interest margin backed off slightly to 3.08%, despite the overall difficulty of market conditions, while net interest spread also pared down to 3.93%.

MANAGEMENT'S DISCUSSION & ANALYSIS

Total assets, advanced by 13.97% or KRW 2.66 trillion to reach KRW 21.71 trillion at the end of the year. Business volume also grew impressively: total loans boosted by KRW 2.75 trillion to KRW 14.93 trillion, while total deposits broadened by KRW 0.89 trillion to KRW 14.56 trillion.

Loans classified as standard or below (SBL's) drifted up marginally, in spite of pressure from a sharp rise in loans. Accordingly, the ratio of SBL's to total loans dipped 0.11% to stand at 0.83% as of year-end. The bank's BIS capital ratio also fell, moving from 1.19% to 11.06%. This was caused by an augmentation in risk-weighted assets following the bank's expanded business volume.

Net Income

Operating revenues amounted to KRW 1.48 trillion, increasing by 13.1% or KRW 171 billion over the year, while operating expenses climbed by KRW 124.2 billion or 11.6% to KRW 1.19 trillion.

Consequently, operating income rose KRW 46.8 billion to reach KRW 280.9 billion at year-end. As for non-operating performance, the bank recorded a non-operating loss of KRW 23.4 billion in 2006, compared to non-operating income of 15.5 billion in 2005. This outcome was directed related to a YoY shrink in non-operating revenues, mainly led by a dip in gains on the sale of loans. At the same time, non-operating expenses leapt substantially upward owing to the payment of honorary retirement allowances.

Income taxes widened by KRW 2.9 billion to KRW 73.6 billion following a rise in net income. Consequently, despite the growth in operating income, net income crept upward by a mere 2.8% to KRW 183.9 billion, led by a rise in non-operating expenses. To sum up, the relatively minor growth in net income was influenced by two contradictory factors: an increase in operating income (principally following a rise in interest income and a drop in write-offs) and a decline in non-operating income (due to the payment of honorary retirement benefits).

Profit and Loss Summary

(Billions of Korean Won)

	2006	2005	YoY Change	
			Amount	%
Operating Revenues	1,480.3	1,309.3	171.0	13.1%
Operating Expenses	1,199.5	1,075.3	124.2	11.6%
Operating Income	280.9	234.0	46.8	20.0%
Non-Operating Income	-23.4	15.5	-39.0	N/A
Ordinary Income	257.4	249.6	7.9	3.1%
Extraordinary Income	0.0	0.0	0.0	N/A
Income Tax Expenses	73.6	70.6	2.9	4.2%
Net Income	183.9	178.8	5.0	2.8%

Profit and Loss By Sector

The bank recorded a relatively high growth rate in operating income, which rose KRW 46.9 billion (20%) over the year to reach KRW 280.9 billion at the end of 2006. Observing by sector, interest income expanded by KRW 24.3 billion (4.1%) to KRW 617.4 billion. This resulted from a YoY rise in interest revenues, following the bank's expanded business volume and a slight rise in market interest.

Interest revenues climbed by KRW 156.6 billion (15.4%) over the year to KRW 1.17 trillion. Interest expenses rose KRW 132.3 billion to KRW 555.2 billion. Thus, although interest expenses also registered a YoY upturn they failed to match the growth rate of interest revenues.

Commission and fee income totaled KRW 64.3 billion, rising 17.8% (KRW 9.7 billion) over the year to make a contribution to escalating operating income. However, trust revenues slipped by KRW 8.5 billion during the same period to reach KRW 8.4 billion.

In terms of other operating performance, including gains or losses on securities and derivatives, the bank registered a decline of KRW 10.8 billion from the previous year's figure to record other operating losses of KRW 27.1 billion. This stands in contrast to the previous year with a KRW 1.3 billion reduction in losses to KRW 16.3 billion. In addition, the amount of loan loss provisions sharply declined by 43.1% (KRW 40.3 billion) over the year to KRW 53.1 billion. This was due to a decrease in write-offs thanks to improved asset soundness even when excluding abnormal factors such as the application of experience loss ratios, change in reserve requirements and the recovery of special bonds. Selling and administrative (S&A) expenses remained similar to the preceding year's level, edging up a mere 2.5% to KRW 329 billion.

MANAGEMENT'S DISCUSSION & ANALYSIS

Profit and Loss by Sector

(Billions of Korean Won)

	2006	2005	YoY Change	
			Amount	%
Interest Income	617.4	593.1	24.3	4.1%
Interest Revenues	1172.6	1016.0	156.6	15.4%
Interest Expenses	555.2	422.9	132.3	31.3%
Net Commission & Fee Income	64.3	54.6	9.7	17.8%
Trust Revenues	8.4	16.9	-8.5	-50.3%
Other Operating Income	-27.1	-16.3	-10.8	66.3%
Adjusted Operating Income	663.0	648.3	14.7	2.3%
Loan Loss Provisions	53.1	93.4	-40.3	-43.1%
S&A Expenses	329.0	320.9	8.10	2.5%
Operating Income	280.9	234.0	46.9	20.0%

Net Interest Income

Interest revenues amounted to KRW 1.17 trillion, recording a rise of KRW 156.6 billion or 15.4% from a year earlier. This was due to an increase in interest-bearing assets following the rebound in overall market interest rates and expansion in loan assets. Interest expenses boosted by 31.3%, or KRW 132.3 billion, over the year to a height of KRW 555.2 billion. Consequently, net interest income moved up 4.1% (or KRW 24.3 billion) year-on-year to the whopping sum of KRW 617.4 billion, triggered by higher growth of interest revenues than that of interest expenses.

Observing interest revenues by segment, interest on loans expanded by KRW 136.3 billion or 17.2% to record KRW 931 billion. Interest on securities climbed 12.1% or KRW 23.8 billion to reach KRW 220.9 billion. Yet during the same period, interest on due from banks and others saw a marginal contraction (by KRW 3.5 billion) to KRW 20.7 billion. As to interest expenses, interest on deposits buoyed by KRW 59.9 billion or 19.3% to KRW 370 billion. Interest on debentures hovered around the previous year's figures, but interest expenses including borrowings expanded by KRW 71.4 billion to KRW 154.1 billion, pressed by a related expansion in financing.

Composition of Net Interest Income

(Billions of Korean Won)

	2006	2005	YoY Change	
			Amount	%
Interest Revenues	1,172.6	1,016.0	156.6	15.4%
Interest on Loans	931.0	794.7	136.3	17.2%
Interest on Securities	220.9	197.1	23.8	12.1%
Interest on Due from Banks, etc.	20.7	24.2	-3.5	-14.5%
Interest Expenses	555.2	422.9	132.3	31.3%
Interest on Deposits	370.0	310.1	59.9	19.3%
Interest on Debentures Issued	31.1	30.1	1.0	3.3%
Interest on Borrowings, etc.	154.1	82.7	71.4	86.3%
Net Interest Income	617.4	593.1	24.3	4.1%

Net Interest Margin and Net Interest Spread

Average won-currency loan rates edged up by 0.1% over the year to 6.89%. This climb was influenced by the prevailing low interest rate environment in 2006 despite a slight gain in market interest rates during the year. Average interest rates on won-currency deposits also advanced by 0.33% to 2.96%. As a consequence, the bank's net interest spread slipped by 0.23% over the year to stand at 3.93%.

The average balance of interest bearing assets increased by KRW 1.86 trillion to KRW 18.46 trillion, while net interest margins dipped 0.26% to 3.08%.

The bank's net interest spread and net interest margin inched down slightly behind the presence of overall low interest rates. This resulted from the bank's steady efforts to increase low-cost deposits and concentrate on nurturing new quality SME's capable of contributing to the generation of profitability.

MANAGEMENT'S DISCUSSION & ANALYSIS

Net Interest Margin & Net Interest Spread

(Billions of Korean Won, %, %P)

	2006	2005	YoY Change	
			Amount	%
Interest-Bearing Assets (avg. balance)	18,462.4	16,593.2	1,869.2	11.3%
NIM	3.08	3.34	-0.26	-7.8%
Average Interest Rate on Won-Currency Loans	6.89	6.79	0.10	1.5%
Household Loans	6.82	6.49	0.33	5.1%
Corporate Loans	6.18	6.17	0.01	0.2%
Average Interest Rate on Won-Currency Deposits	2.96	2.63	0.33	12.5%
Net Interest Spread	3.93	4.16	-0.23	-5.5%

Commission & Fee Income

Commission revenues booked a 12.4% YoY increase (KRW 10.1 billion) to record KRW 91.3 billion in 2006. At the same time, commission expenses edged up by a mere KRW 0.4 billion (1.5%) to settle at KRW 27 billion.

Accordingly, net commission & fee income swelled by 17.8% or KRW 9.7 billion over the year to KRW 64.3 billion.

The increase in commission revenues was led by won-currency commissions which surged by 16% (KRW 9.7 billion) to KRW 70.5 billion. Foreign-currency commission amounted to KRW 13.9 billion, recording a slight increase of 3% over the course of the year. Such expanded commissions and fees were primarily triggered by the development of new fee-based services. Commissions on credit cards, however, declined by 13.5% (KRW 0.5 billion) to KRW 3.2 billion due mainly to reductions in commission rates.

Commission & Fee Income

(Billions of Korean Won, %)

	2006	2005	YoY Change	
			Amount	%
Commission Revenues	91.3	81.2	10.1	12.4%
Won-Currency Commissions	70.5	60.8	9.7	16.0%
Foreign-Currency Commissions	13.9	13.5	0.4	3.0%
Commission on Credit Cards	3.2	3.7	-0.5	-13.5%
Guarantee Fees & Others	3.7	3.2	0.5	15.6%
Commission Expenses	27.0	26.6	0.4	1.5%
Commissions Paid	10.8	11.3	-0.5	-4.4%
Commissions on Credit Cards	16.2	15.3	0.9	5.9%
Net Commission & Fee Income	64.3	54.6	9.7	17.8%

Selling & Administrative Expenses

Selling & administrative (S&A) expenses rose by 2.5% or KRW 8.1 billion over the year to KRW 329 billion. Of these, salary expenses fell slightly by 0.3% or KRW 0.4 billion to KRW 115.5 billion. Other expenses advanced by 7.5% (KRW 10.8 billion) to KRW 154.6 billion, caused by an upswing in assets and prices.

Meanwhile, depreciation costs edged down by KRW 0.7 billion to KRW 34.1 billion. Provisions for employee retirement benefits decreased by KRW 2.3 billion to KRW 15.5 billion, due mainly to the implementation of an honorary retirement plan (number of honorary retirees: 139 in 2006, 37 in 2005).

S&A expenses are primarily fixed costs such as salaries and administrative outlays. S&A expenses, combined with net operating income and provisions for loan losses, are referred to as "adjusted operating income." The "cost income ratio" is calculated by dividing S&A expenses by adjusted operating income.

The bank's cost income ratio was 49.62% in 2006, up 0.12% from 49.5% in 2005. This reflects the slightly higher increase in S&A expenses than in operating income, as generated by the aforementioned increases in other expenses. Nonetheless, the cost income ratio was still maintained at a very low level.

Cost Income Ratio

(Billions of Korean Won, %)

	2006	2005	YoY Change	
			Amount	%
Adjusted operating income*(a)	663.0	648.3	14.7	2.3%
Administrative expenses(b)	329.0	320.9	8.1	2.5%
Cost income ratio (b/a)	49.62	49.50	0.12	0.3%

*Adjusted operating income: Calculated by adding write-offs and S&A expenses to operating income.

MANAGEMENT'S DISCUSSION & ANALYSIS

Income Before Provisions

Income before provisions backed off 9.4% over the year to KRW 333.2 billion in 2006. This KRW 34.5 billion decline was principally caused by the aforementioned payment of honorary retirement benefits. Total provisions decreased by KRW 42.5 billion to KRW 75.7 billion, with a KRW 35.1 billion decline in loan loss provisions pulling the total down to KRW 50.8 billion. This situation was attributed to the bank's continued efforts to set aside sufficient loan loss provisions in previous years, and a decline in NPL's following its aggressive provisioning against bad debts. Effective tax rate, in reflection of income tax expenses as compared to income before income taxes, stood at 28.58% (28.3% in 2005). Consequently, net income gained KRW 5 billion to KRW 183.9 billion, up 2.8% from the previous year's figure.

Income Before Provisions

(Billions of Korean Won, %)

	2006	2005	YoY Change	
			Amount	%
Income Before Provisions (a+b+c)	333.2	367.7	-34.5	-9.4%
Total Provisions (a)	75.7	118.2	-42.5	-36.0%
Provisions for Loan Losses	50.8	85.9	-35.1	-40.9%
Income Tax Expense (b)	73.6	70.6	3.0	4.2%
Net Income (c)	183.9	178.9	5.0	2.8%

Assets

The bank's total assets amounted to KRW 21.71 trillion at the end of 2006, recording a rise of KRW 2.66 trillion or 14% over the year. This was led by an increase in loans. Cash and due from banks declined, however. Loan assets swelled by KRW 2.74 trillion or 22.5% to reach KRW 14.93 trillion. Loans were still accountable for the largest portion of total assets, with this percentage expanding by 4.8% to 68.8% from 64% in 2005. Securities increased marginally by 1% (KRW 47 billion) to KRW 4.91 trillion, with percentage to total assets dipping by 2.9% to 22.7%. Cash & due from banks totaled KRW 1.03 trillion in 2006, down KRW 128.7 billion year-on-year and accounting for 4.7% of total assets (down 1.4% from the preceding year's percentage).

Composition of Assets—Bank Accounts

(Billions of Korean Won, %)

	2006		2005		YoY Change	
	Amount	%	Amount	%	Amount	%
Cash & Due From Banks	1,029.3	4.7	1,158.0	6.1	-128.7	-11.1
Securities	4,918.2	22.7	4,871.1	25.6	47.0	1.0
Loans	14,932.4	68.8	12,186.1	64.0	2,746.3	22.5
Other Assets	830.9	3.8	834.6	4.4	-3.8	-0.4
Total	21,710.8	100.0	19,049.9	100.0	2,660.9	14.0

Securities

The bank's securities are mainly comprised of won- and foreign-currency bonds, stocks, and beneficiary certificates. These are classified by objective and period into trading securities, available-for-sale securities, held-to-maturity securities, and equity-method securities. Total securities as of 2006-end remained similar to the preceding year's level, registering only a small gain of 1% or KRW 47.1 billion to KRW 4.92 trillion. By investment type, major contributors to the slight increase in securities were government bonds, financial bonds and corporate bonds among won-currency bonds and stocks. Won-currency bonds made up the majority of securities, increasing by KRW 8.9 billion to KRW 4.52 trillion. Of these, financial bonds and corporate bonds amounted to KRW 2.37 trillion and KRW 450.3 billion, respectively, soaring by KRW 332 billion (16.3%) and KRW 150.6 billion (50.3%) over the year.

At the same time, foreign-currency bonds sharply surged by KRW 30.4 billion (37.5%) to KRW 111.4 billion. Stocks also soared, registering a balloon of KRW 61.2 billion (111.5%) to KRW 116.1 billion after the bank expanded direct investments given a bullish market trend. On the contrary, equity-type beneficiary certificates decreased by KRW 64.2 billion to KRW 113.3 billion.

Composition of Securities –Bank Accounts

(Billions of Korean Won)

	2006	2005	YoY Change	
			Amount	%
Won-Currency Bonds	4,524.6	4,515.7	8.9	0.2%
Government Bonds	869.8	1,133.9	-264.1	-23.3%
Financial Bonds	2,366.9	2,034.9	332.0	16.3%

Continued

MANAGEMENT'S DISCUSSION & ANALYSIS

Composition of Securities –Bank Accounts

(Billions of Korean Won)

	2006		2005		YoY Change	
	Amount	%	Amount	%	Amount	%
Municipal Bonds	156.2		187.2		-31.0	-16.6%
Government-Invested Companies	681.4		860.0		-178.6	-20.8%
Corporate Bonds	450.3		299.7		150.6	50.3%
Foreign-Currency Bonds	111.4		81.0		30.4	37.5%
Stocks	116.1		54.9		61.2	111.5%
BC's	153.5		207.5		-54.0	-26.0%
Bond-Type	40.2		30.0		10.2	34.0%
Equity-Type	113.3		177.5		-64.2	-36.2%
Other	12.6		12.0		0.6	5.0%
Total	4,918.2		4,871.1		47.1	1.0%

Loans

The bank's total won-currency loans amounted to KRW 13.61 trillion as of 2006-end. This represented a surge of KRW 2.41 trillion or 21.5% from the previous year's figure. By sector, SME loans recorded the largest YoY growth in amount, surging by 31.4% (KRW 2.09 trillion) to KRW 8.76 trillion. Accordingly, the percentage of SME loans to total won-currency loans widened by 4.9% to 64.4%. This outcome was a direct result of the bank's dedication to seek out financially healthy SME's. Meanwhile, loans to public organizations and others showed the largest growth rate. Household loans increased by a mere 3.7% (KRW 131 billion) over the year to KRW 3.69 billion. Accordingly, their weighting to total loans slipped by 4.6% to 27%. Loans to large corporations increased slightly by 4.8% (KRW 33.3 billion) to arrive at a sum of KRW 727.6 billion. Subsequently, large corporate loans made up 5.4% of total won-currency loans, slipping 0.8% from a year earlier.

Won-Currency Loans

(Billions of Korean Won, %)

	2006		2005		YoY Change	
	Amount	%	Amount	%	Amount	%
Households	3,676.0	27.0	3,544.9	31.6	131.0	3.7
SME's	8,763.8	64.4	6,670.2	59.5	2,093.6	31.4
Large Corporations	727.6	5.4	694.3	6.2	33.3	4.8
Public Organizations & Others	441.8	3.3	293.3	2.6	148.4	50.6
Total	13,609.2	100.0	11,202.8	100.0	2,406.3	21.5

Asset Soundness & Loan Loss Provisions

Total loans amounted to KRW 15.35 trillion at the end of 2006, recording a surge of 23.1% (KRW 2.88 trillion) from a year earlier. Loans classified as substandard & below (SBL's), however, totaled KRW 127.8 billion, increasing a mere KRW 10.9 billion over 2005 figures. Consequently, the ratio of SBL's to total loans stood at 0.83%, down by 0.11% over the year prior. Meanwhile, the balance of loan loss provisions expanded by KRW 34.3 billion to KRW 224.7 billion, reflecting the bank's active loan loss provisioning against bad debts. As a consequence, the coverage ratio - referring to the ratio of SBL's to loan loss provisions - expanded by 12.88% to 175.84%. This was led by a slight increase in SBL's and the bank's active loan loss provisioning.

A decline in bad debts and improvement in the bad debts ratio were attributable to the bank's aggressive risk management strategy to prevent the generation of non-performing loans, as well as a strengthened push to ensure the quality of debtor companies. To this end, the bank set aside loan loss provisions while preparing itself against the generation of NPL's following a rise in loans. These figures were also influenced by the bank's efforts to heighten the soundness of loans, backed by a new protocol of conducting exhaustive credit ratings when offering loans to SME's. The bank made loan reviews at all times or on a quarterly basis, and expanded credit screening with a focus on the debtors' ability to pay back in consideration of industry outlooks and fluctuations in business conditions.

Classification of Asset Soundness

(Billions of Korean Won, %, %P)

	2006		2005		YoY Change	
	Amount	%	Amount	%	Amount	%
Total Loans	15,346.1		12,463.3		2,882.8	23.1%
Normal	14,924.9		12,098.0		2,826.9	23.4%
Precautionary	293.4		248.4		45.0	18.1%

Continued

MANAGEMENT'S DISCUSSION & ANALYSIS

Classification of Asset Soundness

(Billions of Korean Won, %, %P)

	2006	2005	YoY Change	
			Amount	%
Substandard	73.0	77.5	-4.5	-5.8%
Doubtful	28.1	29.2	-1.1	-3.8%
Estimated Loss	26.7	10.2	16.5	161.8%
Substandard & Below	127.8	116.9	10.9	9.3%
Precautionary & Below	421.2	365.3	55.9	15.3%
SBL Ratio	0.83	0.94	-0.11	-11.2%
Prec. & Below Ratio	2.74	2.93	-0.19	-6.4%
Provisions	224.7	190.4	34.3	18.0%
Provisions/SBL's	175.84	162.96	12.88	7.9%

Liabilities

The bank's total liabilities amounted to KRW 20.43 trillion as of 2006-end, marking a rise of 14.1% or KRW 2.53 trillion over a year earlier. Deposits accounted for the vast majority (71.3%) of liabilities, despite narrowing by 5% from the preceding year's ratio. Deposits totaled KRW 14.56 trillion at year-end, rising KRW 895.3 billion or 6.6% from the previous year.

Notwithstanding a healthy increase in deposits, the weighting of deposits to liabilities contracted overall led by relatively a sharp upturn in borrowings and debentures. Borrowings swelled by 31.7% or KRW 1 trillion to KRW 4.16 trillion, with its percentage to total liabilities also expanding by 2.7% to reach 20.4%. At the same time, debentures increased by KRW 458.9 billion to KRW 867.6 billion, recording a noticeable upturn of 112.3% from a year earlier. The weighting of debentures to total liabilities nearly doubled over the course of the year, moving up by 2% to account for a total of 4.3%.

Liabilities

(Billions of Korean Won, %, %P)

	2006		2005		YoY Change	
	Amount	%	Amount	%	Amount	%
Deposits	14,557.7	71.3	13,662.5	76.3	895.3	6.6
Borrowings	4,162.9	20.4	3,161.5	17.7	1,001.4	31.7
Debentures Issued	867.6	4.3	408.7	2.3	458.9	112.3
Others	843.7	4.1	670.7	3.8	173.0	25.8
Total	20,432.0	100.0	17,903.4	100.0	2,528.6	14.1

Capital Adequacy

Buoyed in the wake of a rise in net income, the bank's core capital expanded by KRW 127.7 billion to KRW 1.21 trillion as of 2006-end, marking a substantial increase of 11.8% year-on-year. Supplementary capital also strengthened by KRW 63.5 billion to KRW 448.1 billion, up 16.5% from a year earlier. Accordingly, total equity capital saw a generous increase, leaping up by KRW 191.2 billion or 13.1% to KRW 1.66 trillion in reflection of contributions to unconsolidated subsidiaries. Meanwhile, risk-weighted assets expanded significantly, thanks primarily to a rise in loans overall. Risk-weighted assets buoyed to KRW 14.96 trillion, up 25.2% or KRW 3.01 trillion over the year. Consequently, the bank's BIS capital ratio edged down 1.19% over the year to 11.06%. This slimming was due to a sharp expansion in risk-weighted assets including loans following the bank's rapid expansion in business volume, despite an increase in total equity capital. Nevertheless, the bank managed to maintain a high level of stable capital structure.

BIS Capital Ratio

(Billions of Korean Won, %, %P)

	2006	2005	YoY Change	
			Amount	%
Core Capital	1,210.0	1,082.3	127.7	11.8%
Supplementary Capital	448.1	384.6	63.5	16.5%
Contributions to Unconsolidated Subsidiaries	3.0	3.0	0.0	0.0%
Total Equity Capital	1,655.1	1,463.9	191.2	13.1%
Risk-Weighted Assets	14,959.8	11,950.7	3,009.1	25.2%
Tier1 Capital	8.09	9.06	-0.97	-10.7%
Tier2 Capital	2.09	3.22	-0.22	-6.9%
BIS Capital Ratio	11.05	12.25	-1.19	-9.7%

INDEPENDENT AUDITORS' REPORT



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To the Shareholders and Board of Directors of
Pusan Bank:

We have audited the accompanying non-consolidated balance sheets of the bank accounts of Pusan 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, changes in its retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Accounting principles and auditing 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 auditing standards and their application in practice.

A handwritten signature in black ink that reads "Deloitte Anjin LLC".

January 30, 2007

Notice to Readers

This report is effective as of January 30, 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.

BALANCE SHEETS

	Korean Won (In millions)	
	2006	2005
ASSETS		
Cash and due from banks (Notes 3, 26, 28 and 29)	₩ 1,029,316	₩ 1,158,007
Securities (Notes 4 and 28)	4,918,168	4,871,139
Loans (Notes 5, 6, 7, 26 and 28)	14,932,449	12,186,122
Fixed assets (Note 8)	364,403	347,372
Other assets (Notes 9 and 28)	466,452	487,244
	₩ 21,710,788	₩ 19,049,884
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits (Notes 10, 26, 28 and 29)	₩ 14,557,714	₩ 13,662,461
Borrowings (Notes 11, 26 and 28)	4,162,927	3,161,520
Debentures (Notes 12 and 26)	867,625	408,684
Other liabilities (Notes 13, 14, 15, 16, 17, 19 and 28)	843,687	670,690
	20,431,953	17,903,355
SHAREHOLDERS' EQUITY (Notes 4 and 18):		
Common stock	733,418	733,418
Retained earnings		
(Net income of ₩183,856 million for the year ended December 31, 2006 and ₩178,934 million for the year ended December 31, 2005)	541,208	416,759
Capital adjustments	4,209	(3,648)
	1,278,835	1,146,529
	₩ 21,710,788	₩ 19,049,884

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF INCOME

Korean Won (In millions except per share amounts)

	2006	2005
OPERATING REVENUE:		
Interest income:		
Interest on due from banks (Note 20)	₩ 15,015	₩ 17,712
Interest on securities (Note 20)	220,912	197,079
Interest on loans (Note 20)	931,044	794,333
Other interest income (Note 20)	5,611	6,476
	1,172,582	1,015,600
Commission income	91,386	81,610
Other operating income:		
Gain on disposal of trading securities	1,652	7,277
Gain on valuation of trading securities	-	298
Dividends on trading securities	132	5
Dividends on available-for-sale securities	296	270
Foreign exchange trading income	62,926	36,523
Gain on financial derivatives trading	116,156	121,727
Gain on valuation of financial derivatives (Note 16)	19,681	16,415
Gain on valuation of fair value hedged items (Note 16)	-	5,655
Fees and commissions from trust accounts	15,518	23,902
	216,361	212,072
Total operating revenues	1,480,329	1,309,282
OPERATING EXPENSES:		
Interest expenses:		
Interest on deposits (Note 20)	369,963	310,071
Interest on borrowings (Note 20)	146,053	76,340
Interest on debentures (Note 20)	31,141	30,073
Other interest expenses (Note 20)	8,071	6,380
	555,228	422,864
Commission expense	27,026	26,594
Other operating expenses:		
Loss on disposal of trading securities	2,624	4,179
Loss on valuation of trading securities	-	119
Provision for acceptance and guarantee losses	1,245	2,414
Foreign exchange trading losses	12,534	14,974
Loss on financial derivatives trading	129,256	121,334
Loss on valuation of financial derivatives (Note 16)	31,588	25,510
Loss on valuation of fair value hedged items (Note 16)	2,537	-
Provision for possible loan losses (Note 7)	50,737	85,852
Other operating expenses	57,650	50,529
	288,171	304,911
Selling and administrative expenses (Note 21)	329,047	320,884
Total operating expenses	1,199,472	1,075,253
OPERATING INCOME	₩ 280,857	₩ 234,029
NON-OPERATING INCOME (Note 22)	30,148	43,657
NON-OPERATING EXPENSES (Note 22)	53,577	28,111
ORDINARY INCOME	257,428	249,575
EXTRAORDINARY ITEM	-	-
INCOME BEFORE INCOME TAX	257,428	249,575
INCOME TAX EXPENSE (Note 23)	73,572	70,641
NET INCOME	₩ 183,856	₩ 178,934
ORDINARY INCOME PER SHARE (Note 24)	₩ 1,253	₩ 1,220
NET INCOME PER SHARE (Note 24)	₩ 1,253	₩ 1,220

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

	Korean Won (In millions)	
	2006	2005
RETAINED EARNINGS BEFORE APPROPRIATIONS:		
Beginning of the year	₩ -	₩ -
Net income	183,856	178,934
	183,856	178,934
APPROPRIATIONS OF RETAINED EARNINGS:		
Legal reserve (Note 18)	18,386	17,894
Other reserve	103,863	101,633
Cash dividends (Note 25)	61,607	59,407
	183,856	178,934
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ -	₩ -

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF CASH FLOWS

	Korean Won (In millions)	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 183,856	₩ 178,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on disposal of trading securities, net	972	(3,098)
Gain on valuation of trading securities, net	-	(179)
Gain on disposal of available-for-sale securities, net	(16,801)	(16,240)
Loss on impairment of available-for-sale securities	28	372
Loss (gain) on financial derivatives trading, net	13,100	(393)
Loss on valuation of financial derivatives, net	11,907	9,095
Provision for possible loan losses	50,737	85,852
Provision for severance benefits	15,522	17,808
Depreciation and amortization	34,173	34,804
Gain on disposal of tangible assets, net	(565)	(212)
Gain on valuation of securities using the equity method, net	(218)	(313)
Loss (gain) on sale of loans, net	(1,166)	115
Loss (gain) on valuation of fair value hedged items	2,537	(5,655)
Others, net	(4,764)	(325)
	105,462	121,631
Changes in assets and liabilities resulting from operations:		
Decrease in trading securities	17,356	26,074
Decrease in accrued income	8,399	20,594
Decrease (increase) in prepaid expenses	6,139	(8,089)
Increase in deferred income tax assets	(3,669)	-
Payment of severance benefits	(6,787)	(1,658)
Increase in severance insurance deposits	(9,234)	(14,290)
Increase in accrued expenses	64,118	14,247
Decrease in deferred income tax liabilities	(8,456)	(4,370)
Others, net	2,406	3,281
	70,272	35,789
Net cash provided by operating activities	359,590	336,354

Continued

STATEMENTS OF CASH FLOWS (CONTINUED)

	Korean Won (In millions)	
	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted due from banks, net	₩ 39,897	₩ 291,594
Decrease in available-for-sale securities	1,234,913	3,318,396
Decrease in held-to-maturity securities	1,112,812	4,487,572
Disposal of fixed assets	1,991	4,362
Decrease (increase) in other receivables, net	(74,953)	148,418
Increase in available-for-sale securities	(1,139,898)	(3,678,805)
Increase in held-to-maturity securities	(1,231,564)	(4,940,252)
Increase in loans, net	(2,795,139)	(1,195,454)
Acquisition of fixed assets	(52,696)	(43,346)
Increase in guarantee deposits, net	(6,631)	(1,392)
Decrease in other assets, net	76,939	65,064
Net cash used in investing activities	(2,834,329)	(1,543,843)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	895,253	858,928
Increase in borrowings, net	1,001,408	1,085,995
Increase in debentures, net	455,308	15,000
Increase (decrease) in other liabilities, net	33,976	(343,507)
Net cash provided by financing activities	2,385,945	1,616,416
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(88,794)	408,927
CASH AND DUE FROM BANKS, BEGINNING OF THE YEAR	761,727	352,800
CASH AND DUE FROM BANKS, END OF THE YEAR (Note 34)	₩ 672,933	₩ 761,727

See accompanying notes to non-consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

Pusan Bank (the "Bank") was incorporated on October 10, 1967 as a regional bank, under the laws of the Republic of Korea, to engage in the commercial banking and trust business. The Bank has been appointed as a manager of Busan City Government's Budgetary Funds (General Account and several Special Accounts) since January 1, 2001.

The Bank's head office is located in Busan and the Bank has 220 branches in Korea.

The Bank became a publicly traded financial institution upon listing its common shares on the Korean Exchange in June 1972. The Bank's issued and outstanding common stock as of December 31, 2006 amounted to ₩733,418 million.

The major shareholders of the Bank were as follows.

Shareholders	Number of shares	Percentage(%)
Lotte Confectionery Co., Ltd. ^(*1)	20,693,162	14.11
Capital Research & Global Investors ^(*1&2)	17,461,500	11.90
Park Land Co., Ltd.	6,024,600	4.11
MSIL-SR Global FD	3,534,880	2.41
PL-ABDN GL	3,969,080	2.71
Korea Iron & Steel Co., Ltd.	2,791,323	1.90
Templeton Global Smaller	2,372,300	1.62
Saudi Arabian Monetary	2,307,405	1.57
National Pension	2,176,180	1.48
The Capital Guardian EMP	2,008,480	1.37
Schroder International	2,006,060	1.37
Franklin Templeton Investment Trust	1,961,306	1.34
Others	8,379,377,374,391,914	54.11
	146,683,650	100.00

(*1) Including the related shareholders that a party substantially control

(*2) Formerly Capital Research & Management Company

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.

The financial statements of the Bank to be submitted to the general shareholders' meeting are subject to approval by the Board of Directors, which was tabled at their meeting on January 23, 2007.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for unsecured 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 a cash basis in accordance with the banking 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 ₩417,362 million and ₩348,098 million, respectively, and the related accrued interest income not recognized amounted to ₩10,972 million and ₩7,676 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Classification of Securities

At acquisition, the Bank classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities 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 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 specific identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest rate 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 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 rate 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.

(3) 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 specific identification method for debt securities). The effective interest rate 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.

(4) Valuation of Securities 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 15 percent or more of the 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 using the equity method in capital adjustments.

(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 the 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

NOTES TO FINANCIAL STATEMENTS

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 or expense 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 or expense.

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 the control, the transaction is recorded as secured borrowing transaction.

Allowance for Possible Losses on Credits

The Supervisory Regulation of the 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 Bank provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages as described below.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
December 31, 2006					
Corporate loans	0.7%	7.0%	20.0%	50.0%	100.0%
Consumer loans	1.0%	10.0%	20.0%	55.0%	100.0%
Credit card loans	1.5%	15.0%	20.0%	60.0%	100.0%
December 31, 2005					
Corporate loans	0.7%	5.0%	20.0%	75.0%	100.0%
Consumer loans	0.75%	8.0%	20.0%	55.0%	100.0%
Credit card loans	1.0%	12.0%	20.0%	60.0%	100.0%

The Bank calculated the estimated loss through objective and reasonable method, such as using the experienced loss rate on individual loans or homogeneous loan group, and the estimated loss has been reflected in the allowance for possible loan losses since last year.

Since the Supervisory Regulation requires banks to raise the minimum rate of allowance for possible loan losses, the Bank raised the minimum rate of allowance for each type of loans. Due to such change of accounting estimation, allowances for possible loan losses increased by 9,341 million and net income decreased by 6,772 million for the year ended December 31, 2006.

Allowance for Possible Losses on Confirmed and Unconfirmed Acceptances and Guarantees

The Bank provided no less than the minimum rate of allowance for possible loan loss on confirmed acceptances and guarantees, notes endorsed and unconfirmed acceptances and guarantees reflecting both the credit classification and credit exchange rate.

In addition, when an allowance for possible losses on confirmed acceptances and guarantees 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 losses on confirmed acceptances and guarantees.

Also, the Bank raised the minimum rate of allowance for each type of loans according to the modified Supervisory Regulation. Due to such change of accounting estimation, allowance for acceptances and guarantees increased by 1,094 million and net income decreased by 1,094 million for the year ended December 31, 2006.

Allowance for Possible Losses on the Unused Limits

The Bank provided allowance for possible losses on the unused limits for certain portions of the unused cash advance facility of active credit card accounts with transaction records during the recent one year and for unused credit limit of credit line commitments of households and corporations classified as normal

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reflecting the credit exchange rate until FY 2005. However, the Bank has provided allowance for possible losses on the unused limits for all unused purchase credit limit and unused cash advance facility of credit card accounts and for unused credit limit of all credit line commitments of households and corporations reflecting the credit exchange rate since FY 2006. Such change also satisfies the requirement of the Supervisory Regulation as the Bank provides other allowances more than the minimum allowance rate. Due to this change, allowance for acceptance and guarantee and other allowances increased by ~~¥~~¥3,329 million, and net income decreased by 3,329 million for the year ended December 31, 2006. Since the Bank believes that it is difficult to determine the accumulated effect due to the change in accounting policy, the effect of the change is recognized prospectively in the current year.

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 loans. If the amount of allowances already established is less than the impairment losses under the workout plans, the Bank provides additional allowances for the difference. Otherwise, the Bank reverses the allowances for loan losses.

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 the 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	Straight-line	50 years
Leasehold improvements	Straight-line	5 years
Equipment and vehicles	Declining balance	5 years
Others	Declining balance	5 years

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. 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 expected, are capitalized as development costs under intangible assets. Intangible assets are amortized using the reasonable amortization method over the reasonable useful life under 20 years for development costs and other intangible assets.

Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the recoverable 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 recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the recoverable value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank assessed the recoverable 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 or interest income on the debentures.

Accrued Severance Benefits

Employees and directors 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 Samsung 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.

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 resale or repurchase agreements.

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

Stock options are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to operating expense in the statement of income and credited to liability as accounts payable over the contractual term of the services provided.

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 each 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 prevailing 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.

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 accounts 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

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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.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued a series of the Statements of Korea Accounting Standards (SKAS) No.1 through No.24. The Statements supersede the relative articles of existing accounting standards and constitute generally accepted accounting principles of the Republic of Korea. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No.20 (Related Party Disclosures), SKAS No.11 excluded, as of or before December 31, 2006.

Reclassification

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

3. CASH AND DUE FROM BANKS

(1) Cash and due from banks as of December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	Won in millions		Won in millions	
Cash and checks	₩	362,765	₩	362,146
Foreign currencies		23,196		16,519
Due from banks in local currency		624,012		742,765
Due from banks in foreign currencies		19,343		36,577
	₩	1,029,316	₩	1,158,007

(2) Cash and due from banks in local currency and foreign currencies as of December 31, 2006 and 2005 consisted of the following:

	Financial institution	Interest rate (%)	2006		2005	
			Won in millions		Won in millions	
Due from banks in local currency:	The Bank of Korea	-	₩	344,151	₩	375,330
	Korea Exchange Bank and others	4.62~4.81		215,443		304,602
	Domestic banks	4.00~4.87		63,400		62,400
	Others	-		1,018		433
				624,012		742,765
Due from banks in foreign currencies:	The Bank of Korea	-		11,215		20,582
	Korea Exchange Bank and others	-		3,671		14,320
	Others	-		4,457		1,675
				19,343		36,577
			₩	643,355	₩	779,342

(3) Restricted due from banks in local currency and foreign currencies as of December 31, 2006 and 2005 consisted of the following:

	Financial institution	2006		2005	Reason of restriction
		Won in millions		Won in millions	
Due from banks in local currency:	The Bank of Korea	₩	344,151	₩	The Bank of Korea Act Reserve for compensation for default loss and other
			1,017		
Other deposits	Korea Stock Exchange		345,168	375,698	
Due from banks in foreign currencies:	The Bank of Korea		11,215	20,582	The Bank of Korea Act
Due from banks on demand		₩	356,383	₩	396,280

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4. SECURITIES

(1) Securities as of December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	Won in millions			
Trading securities:				
Stocks	₩	-	₩	8,477
Government and public bonds		-		9,850
		-		18,327
Available-for-sale securities:				
Stocks		93,204		23,770
Equity securities		1,960		1,977
Government and public bonds		253,137		356,495
Finance debentures		574,680		711,224
Corporate bonds		520,242		389,711
Securities in foreign currencies		58,892		28,431
Others		164,174		217,513
		1,666,289		1,729,121
Held-to-maturity securities:				
Government and public bonds		772,854		954,781
Finance debentures		1,792,161		1,323,720
Corporate bonds		611,521		769,998
Securities in foreign currencies		52,484		52,591
		3,229,020		3,101,090
Securities using the equity method:				
Stocks		22,859		22,601
	₩	4,918,168	₩	4,871,139

(2) The valuation of securities excluding securities using the equity methods as of December 31, 2006 and 2005 consisted of the following:

December 31, 2006	Won in millions			
	Face value	Acquisition cost	Amortized cost	Fair value
Available-for-sale securities:				
Equity securities	₩ 90,481	₩ 97,564	₩ 95,164	₩ 95,164
Government and public bonds	255,000	255,986	254,894	253,137
Finance debentures	580,000	570,573	575,291	574,680
Corporate bonds	520,500	519,442	520,121	520,242
Beneficiary certificates	151,053	151,070	151,070	153,567
Commercial paper	10,000	10,000	10,000	9,989
Securities in foreign currencies	58,565	58,550	58,550	58,892
Other securities	2,833	618	618	618
	1,668,432	1,663,803	1,665,708	1,666,289
Held-to-maturity securities:				
Government and public bonds	786,170	762,093	772,854	772,854
Finance debentures	1,800,000	1,787,219	1,792,161	1,792,161
Corporate bonds	611,130	611,484	611,521	611,521
Securities in foreign currencies	52,523	52,438	52,484	52,484
	3,249,823	3,213,234	3,229,020	3,229,020
	₩ 4,918,255	₩ 4,877,037	₩ 4,894,728	₩ 4,895,309

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December 31, 2005	Face value				Acquisition cost				Amortized cost				Fair value			
Won in millions																
Trading securities:																
Stocks	₩	966	₩	8,207	₩	8,207	₩	8,477								
Government and public bonds		10,000		9,937		9,942		9,850								
		10,966		18,144		18,149		18,327								
Available-for-sale securities:																
Equity securities		30,970		38,017		38,017		25,747								
Government and public bonds		360,000		360,847		360,457		356,495								
Finance debentures		720,000		702,405		713,182		711,224								
Corporate bonds		391,678		391,125		391,044		389,711								
Beneficiary certificates		200,000		200,000		200,000		207,524								
Commercial paper		10,000		10,000		10,000		9,989								
Securities in foreign currencies		28,364		28,348		28,351		28,431								
		1,741,012		1,730,742		1,741,051		1,729,121								
Held-to-maturity securities:																
Government and public bonds		969,382		947,011		954,781		954,781								
Finance debentures		1,330,346		1,316,676		1,323,720		1,323,720								
Corporate bonds		769,181		772,827		769,998		769,998								
Securities in foreign currencies		52,676		52,555		52,591		52,591								
		3,121,585		3,089,069		3,101,090		3,101,090								
	₩	4,873,563	₩	4,837,955	₩	4,860,290	₩	4,848,538								

The fair values of debt securities as of December 31, 2006 and 2005 were assessed by applying the median of base prices per bond announced on a recent trading day by Korea Bond Pricing & KR Co. (KBP) and Korea Investors Services Co., Ltd. (KIS). The purchasing prices of the securities in foreign currencies were translated using the basic exchange rate at December 31, 2006 and 2005, respectively. Also, the book values of trading securities and available-for-sale securities are recorded at fair values and the book values of held-to-maturity securities are recorded at adjusted values by using the effective interest rate method.

(3) Available-for-sale equity securities as of December 31, 2006 and 2005 consisted of the following:

December 31, 2006	Shares				Percentage of ownership(%)				Acquisition cost				Fair value or net asset value				Book value			
Won in millions																				
Listed equity securities:																				
Namsun Aluminum Co., Ltd.		39,300		0.55	₩	369	₩	99	₩	99										
						369		99		99										
Unlisted equity securities:																				
BC Card Co., Ltd.		177,120		4.03		3,042		8,256		7,282										
CJ Investment Co., Ltd.		799,481		1.30		3,997		2,623		4,243										
Kihyup Technology Co., Ltd.		100,000		1.72		500		616		500										
Dongbu Investment Trust Co., Ltd.		400,000		6.67		2,000		1,870		2,353										
Korea Housing Guarantee Co., Ltd.		1,167,000		0.18		1,741		3,971		4,812										
Miraeasset Private Security Fund		10,000,000		8.18		50,000		50,000		50,000										
Lotte Capital Co., Ltd.		2,464,000		7.87		21,126		12,165		13,375										
Others						12,829		5,661		10,540										
						95,235		85,162		93,105										
Equity investments:																				
Korea Asset Management Corporation		292,000		0.56	₩	1,460	₩	1,043	₩	1,460										
Others						500		516		500										
						1,960		1,559		1,960										
					₩	97,564	₩	86,820	₩	95,164										

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						Won in millions	
December 31, 2005	Shares	Percentage of ownership(%)	Acquisition cost	Fair value or net asset value	Book value		
Listed equity securities:							
Namsun Aluminum Co., Ltd.	39,300	0.55	₩ 369	₩ 154	₩	154	
			369	154		154	
Unlisted equity securities:							
BC Card.	177,120	4.03	3,042	7,467		3,296	
CJ Investment Co., Ltd.	799,481	1.30	3,997	2,621		2,945	
Kihyup Technology Co., Ltd.	100,000	1.72	500	571		500	
Dongbu Investment Trust Co., Ltd.	400,000	6.67	2,000	1,836		1,548	
Korea Housing Guarantee Co., Ltd.	1,167,000	0.18	1,741	3,132		3,209	
Hankook Real Estate Trust Co., Ltd.	241,000	1.14	1,197	(1,207)		-	
Lotte Capital Co., Ltd.	2,464,000	7.87	21,126	8,699		11,125	
Others			2,069	9,916		993	
			35,672	33,035		23,616	
Equity investments:							
Korea Asset Management Corporation	292,000	0.56	1,460	1,043		1,460	
Others			517	539		517	
			1,977	1,582		1,977	
			₩ 38,018	₩ 34,771	₩	25,747	

(4) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2006 and 2005 consisted of the following :

						Won in millions	
						Composition(%)	
						2006	2005
						2006	2005
Trading securities:							
Public service	₩	-	₩	9,850	-	53.75	
Financial services		-		1,666	-	9.09	
Manufacturing		-		5,091	-	27.78	
Construction		-		321	-	1.75	
Wholesale and retail		-		216	-	1.18	
Other		-		1,183	-	6.45	
	₩	-	₩	18,327	-	100.00	
Available-for-sale securities:							
Public service	₩	253,137	₩	356,495	15.19	20.62	
Financial services		1,151,711		1,154,729	69.12	66.78	
Manufacturing		111,525		57,761	6.69	3.34	
Construction		10,720		11,380	0.64	0.66	
Restaurant and lodging		10,086		10,115	0.61	0.58	
Other		129,110		138,641	7.75	8.02	
	₩	1,666,289	₩	1,729,121	100.00	100.00	
Held-to-maturity securities:							
Public service	₩	772,854	₩	954,781	23.93	30.79	
Financial services		2,133,285		1,773,744	66.07	57.20	
Manufacturing		12,521		19,183	0.39	0.62	
Other		310,360		353,382	9.61	11.39	
	₩	3,229,020	₩	3,101,090	100.00	100.00	

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(5) The portfolio of securities excluding securities using the equity method, by type, as of December 31, 2006 and 2005 consisted of the following:

Won in millions							
December 31, 2006	Securities in local currency		Securities in foreign currencies		Total	Percentage(%)	
Available-for-sale securities:							
Equity securities	₩	95,164	₩	-	₩	95,164	5.71
Fixed rate bonds		1,308,074		9,246		1,317,320	79.05
Floating rate bonds		39,985		49,646		89,631	5.38
Commercial papers		9,989		-		9,989	0.60
Beneficiary certificates		153,567		-		153,567	9.22
Others		618		-		618	0.04
	₩	1,607,397	₩	58,892	₩	1,666,289	100.00
Held-to-maturity securities:							
Fixed rate bonds	₩	3,036,536	₩	-	₩	3,036,536	94.04
Floating rate bonds		140,000		52,484		192,484	5.96
	₩	3,176,536	₩	52,484	₩	3,229,020	100.00

Won in millions							
December 31, 2005	Securities in local currency		Securities in foreign currencies		Total	Percentage(%)	
Trading securities:							
Stocks	₩	8,477	₩	-	₩	8,477	46.25
Fixed rate bonds		9,850		-		9,850	53.75
	₩	18,327	₩	-	₩	18,327	100.00
Available-for-sale securities:							
Equity securities	₩	25,747	₩	-	₩	25,747	1.49
Fixed rate bonds		1,412,139		-		1,412,139	81.67
Floating rate bonds		45,291		28,431		73,722	4.26
Commercial papers		9,989		-		9,989	0.58
Beneficiary certificates		207,524		-		207,524	12.00
	₩	1,700,690	₩	28,431	₩	1,729,121	100.00
Held-to-maturity securities:							
Fixed rate bonds	₩	3,008,499	₩	-	₩	3,008,499	97.01
Floating rate bonds		40,000		52,591		92,591	2.99
	₩	3,048,499	₩	52,591	₩	3,101,090	100.00

(6) Equity securities using the equity method as of December 31, 2006 and 2005 are summarized as follows:

Won in millions						
December 31, 2006	No. of shares	Owner-ship(%)	Acquisition cost	Net asset value	Book value	
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 18,674	₩ 18,674	
Busan Credit Information Co., Ltd. ^(*)	600,000	100.00	₩ 3,000	₩ 3,143	₩ 3,000	
Mybi Co., Ltd. ^(**)	420,000	14.17	₩ 2,100	₩ 1,185	₩ 1,185	
Korea Lease Financing Co., Ltd. ^(***)	695,064	17.38	₩ 3,475	-	-	
			₩ 23,575	₩ 23,002	₩ 22,859	

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December 31, 2005	No. of shares	Owner-ship(%)	Acquisition cost	Net asset value	Won in millions	
					Book value	Book value
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 18,154	₩	18,154
Busan Credit Information Co., Ltd. ^(*1)	600,000	100.00	₩ 3,000	₩ 3,038	₩	3,000
Mybi Co., Ltd. ^(*2)	420,000	14.17	₩ 2,100	₩ 1,447	₩	1,447
Korea Lease Financing Co., Ltd. ^(*3)	695,064	17.38	₩ 3,475	-	₩	-
			₩ 23,575	₩ 22,639	₩	22,601

(*1) Busan Credit Information Co., Ltd. as a subsidiary of the Bank, is recorded at acquisition cost because the changes in investment securities using the equity method are not considered significant.

(*2) Mybi Co., Ltd. is valued using the equity method because the Bank maintains a significant influence on Mybi Co., Ltd. at the balance sheet date.

(*3) Korea Lease Financing Co., Ltd. is not valued using the equity method because the net asset of Korea Lease Financing Co., Ltd. is below zero.

The net asset value of the above investees is computed based on their financial statements as of December 31, 2006 and 2005.

(7) The valuations of securities using the equity method as of December 31, 2006 and 2005 were as follows:

December 31, 2006	Acquisition cost	Net asset value	Book value before valuation	Equity gain (loss)	Others	Won in millions	
						Book value after valuation	Book value after valuation
PB Futures Co., Ltd.	₩ 15,000	₩ 18,674	₩ 18,154	₩ 480	₩ 40	₩	18,674
Busan Credit Information Co., Ltd.	₩ 3,000	₩ 3,143	₩ 3,000	-	-	₩	3,000
Mybi Co., Ltd.	₩ 2,100	₩ 1,185	₩ 1,447	(262)	-	₩	1,185
Korea Lease Financing Co., Ltd.	₩ 3,475	-	-	-	-	₩	-
	₩ 23,575	₩ 23,002	₩ 22,601	₩ 218	₩ 40	₩	22,859

December 31, 2005	Acquisition cost	Net asset value	Book value before valuation	Equity gain (loss)	Others	Won in millions	
						Book value after valuation	Book value after valuation
PB Futures Co., Ltd.	₩ 15,000	₩ 18,154	₩ 17,735	₩ 419	₩ -	₩	18,154
Busan Credit Information Co., Ltd.	₩ 3,000	₩ 3,038	₩ 3,000	-	-	₩	3,000
Mybi Co., Ltd.	₩ 2,100	₩ 1,447	₩ 1,010	(106)	₩ 543	₩	1,447
Korea Lease Financing Co., Ltd.	₩ 3,475	-	-	-	-	₩	-
	₩ 23,575	₩ 22,639	₩ 21,745	₩ 313	₩ 543	₩	22,601

(8) Major financial information of companies of which stocks were accounted for using the equity method as of and for the years ended December 31, 2006 and 2005 were as follows:

December 31, 2006	Assets	Liabilities	Sales	Won in millions	
				Net income(loss)	Net income(loss)
PB Futures Co., Ltd. ^(*1)	₩ 36,497	₩ 17,823	₩ 8,894	₩	480
Busan Credit Information Co., Ltd. ^(*1)	₩ 3,311	₩ 168	₩ 2,324	₩	104
Mybi Co., Ltd. ^(*2)	₩ 26,445	₩ 18,081	₩ 10,758	₩	(1,848)

(*1) Operating revenue and net income were for the year ended December 31, 2006.

(*2) Operating revenue and net loss were for the year ended December 31, 2005.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005	Won in millions							
	Assets	Liabilities	Sales	Net income(loss)				
PB Futures Co., Ltd. ^(*)	₩	53,620	₩	35,466	₩	6,692	₩	463
Busan Credit Information Co., Ltd. ^(*)		3,215		177		2,548		24
Mybi Co., Ltd. ^(*)		23,135		12,923		6,658		(598)

(*) Operating revenue and net income were for the year ended December 31, 2005.

(*) Operating revenue and net loss were for the year ended December 31, 2004.

(9) Changes in the gain (loss) on valuation of available-for-sale securities, and securities using the equity method reflected in capital adjustments for the years ended December 31, 2006 were as follows:

	Won in millions				
	Beginning	Increase	Decrease	Disposal	Ending
Available-for-sale securities:					
Equity securities	₩ (5,045)	₩ 7,282	₩ 90	₩ -	₩ 2,147
Bonds in local currency	(5,267)	3,649	1,288	(1,270)	(1,636)
Bonds in foreign currencies	58	195	5	-	248
Beneficiary certificates	5,455	1,810	-	5,455	1,810
Others	-	448	-	-	448
	₩ (4,799)	₩ 13,384	₩ 1,383	₩ 4,185	₩ 3,017
Securities using the equity method	₩ 1,151	₩ 41	₩ -	₩ -	₩ 1,192

(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 and 2005 was as follows:

December 31, 2006	Won in millions					
	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates /others ^(*)	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	₩ 30,002	₩ 69,842	₩ 64,893	₩ -	₩ -	₩ 164,737
Less than 6 months	10,066	78,808	49,935	61,544	-	200,353
Less than 1 year	119,187	186,846	75,665	100,913	9,333	491,944
Less than 2 years	83,994	239,184	129,937	-	21,410	474,525
Less than 3 years	9,888	-	199,812	-	-	209,700
Less than 5 years	-	-	-	-	-	-
Less than 10 years	-	-	-	-	28,149	28,149
More than 10 years	-	-	-	1,099	-	1,099
	253,137	574,680	520,242	163,556	58,892	1,570,507
Held-to-maturity securities:						
Less than 3 months	₩ 30,457	₩ 109,917	₩ 873	₩ -	₩ -	₩ 141,247
Less than 6 months	19,298	229,405	-	-	-	248,703
Less than 1 year	132,862	673,858	79,975	-	7,892	894,587
Less than 2 years	359,421	618,937	325,066	-	12,056	1,315,480
Less than 3 years	131,046	60,044	151,763	-	-	342,853
Less than 4 years	51,656	-	3,760	-	9,296	64,712
Less than 5 years	48,114	-	20,084	-	9,296	77,494
Less than 10 years	-	100,000	30,000	-	13,944	143,944
	772,854	1,792,161	611,521	-	52,484	3,229,020
	₩1,025,991	₩2,366,841	₩1,131,763	₩ 163,556	₩ 111,376	₩4,799,527

(*) The preferred stock warranty of Kia Motors Corporation amounting to 618 million is not included.

NOTES TO FINANCIAL STATEMENTS

Won in millions

December 31, 2005	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates /others ^(*)	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	₩ 20,081	₩ 219,141	₩ 40,065	₩ 10,375	₩ -	₩ 289,662
Less than 6 months	10,084	88,766	10,056	9,989	-	118,895
Less than 1 year	90,020	323,432	66,295	197,149	-	676,896
Less than 2 years	158,298	79,885	189,536	-	10,194	437,913
Less than 3 years	68,244	-	73,778	-	18,237	160,259
Less than 4 years	9,768	-	9,981	-	-	19,749
	356,495	711,224	389,711	217,513	28,431	1,703,374
Held-to-maturity securities:						
Less than 3 months	62,265	159,530	152,326	-	-	374,121
Less than 6 months	34,266	198,445	25,146	-	5,059	262,916
Less than 1 year	140,085	206,837	111,986	-	4,556	463,464
Less than 2 years	179,803	678,954	79,958	-	23,777	962,492
Less than 3 years	338,160	79,954	295,709	-	9,069	722,892
Less than 4 years	129,739	-	71,179	-	-	200,918
Less than 5 years	50,463	-	3,694	-	10,130	64,287
Less than 10 years	20,000	-	30,000	-	-	50,000
	954,781	1,323,720	769,998	-	52,591	3,101,090
	₩ 1,311,276	₩ 2,034,944	₩ 1,159,709	₩ 217,513	₩ 81,022	₩ 4,804,464

(11) 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:

Won in millions

Accounts	2006		2005	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities:				
Equity securities	₩ 28	₩ -	₩ 372	₩ -

(12) The portfolio of securities in foreign currencies excluding securities accounted for using the equity method, by country, as of December 31, 2006 and 2005 was as follows:

Won in millions

By country	2006		2005	
	Amount	Percentage(%)	Amount	Percentage(%)
Available-for-sale securities:				
Korea	₩ 35,341	60.01	₩ 28,431	100.00
USA	14,141	24.01	-	-
France	9,410	15.98	-	-
	₩ 58,892	100.00	₩ 28,431	100.00
Held-to-maturity securities:				
Korea	₩ 7,427	14.15	₩ 12,639	24.03
USA	21,817	41.57	14,628	27.82
France	9,296	17.71	10,130	19.26
Germany	4,648	8.86	5,064	9.63
United Kingdom	-	-	10,130	19.26
Belgium	9,296	17.71	-	-
	₩ 52,484	100.00	₩ 52,591	100.00

NOTES TO FINANCIAL STATEMENTS

(13) Securities provided as collateral as of December 31, 2006 and 2005 were as follows:

Won in millions

Provided to	2006	2005	Provided for
Korea Securities Depository	₩ 1,380,000	₩ 1,020,000	Bonds sold under
Repurchase agreements			
The Bank of Korea	180,000	182,000	Overdrafts and settlement risk
The Bank of Korea	491,700	541,700	Borrowings from the Bank of Korea
The Bank of Nova Scotia	-	80,000	Borrowings from bank
Sumitomo Mitsui Banking , Seoul	-	90,000	Borrowings from bank
The Bank of America	30,000	40,000	Borrowings from bank
Kyobo Securities and others	4,300	6,200	Futures settlement
Busan District Court	923	-	A deposit
	₩ 2,086,923	₩ 1,959,900	

(14) Assets of private beneficiary certificates included in beneficiary certificates of available-for-sale securities as of December 31, 2006 and 2005 were as follows:

Won in millions

	2006	2005
Stocks	₩ 52,821	₩ 56,224
Government and public bonds	9,976	1,728
Finance bonds	66,348	123,786
Bonds	1,498	-
Call loans	10,258	27,630
Other due from banks	11,622	2,139
Other asset	1,736	-
Assets	154,259	211,507
Liabilities	692	3,983
Net assets	₩ 153,567	₩ 207,524

5. LOANS

(1) Loans as of December 31, 2006 and 2005 consisted of the following:

Won in millions

	2006	2005
Loans in local currency	₩ 13,609,190	₩ 11,202,846
Loans in foreign currencies	525,160	342,932
Bills bought in local currency	3,426	3,874
Bills bought in foreign currencies	153,670	189,621
Advances for customers	1,536	1,306
Credit card accounts	317,178	309,824
Bonds purchased under resale agreements	60,000	40,000
Privately placed bonds	193,950	23,895
Call loans	27,237	10,130
Domestic import usance bill	261,653	250,032
Factoring receivables	166	170
	15,153,166	12,374,630
Allowance for possible loan losses (see Notes 6 and 7)	(220,717)	(188,508)
	₩ 14,932,449	₩ 12,186,122

NOTES TO FINANCIAL STATEMENTS

(2) Loans in local currency and loans in foreign currencies as of December 31, 2006 and 2005 were as follows:

		Won in millions	
		2006	2005
Loans in local currency:			
Commercial	Working capital loans:		
	Notes discounted	₩ 626,224	₩ 605,803
	Overdraft accounts	94,818	103,335
	General purpose loans	5,147,650	3,872,419
	Trading notes	313,297	251,933
	Commercial loans	318,617	315,264
	Others	232,583	190,907
		6,733,189	5,339,661
	Facilities loans:		
	General purpose loans	1,695,582	1,154,498
	Others	823,845	666,985
		2,519,427	1,821,483
		9,252,616	7,161,144
Households	General purpose loans	3,650,048	3,508,313
	Others	1,056	1,243
		3,651,104	3,509,556
Public sector loans	Working capital loans	260,572	206,047
	Facilities loans	181,215	87,300
		441,787	293,347
Other loans	Housing loans	24,866	35,367
	Inter-bank loans	238,817	203,432
		263,683	238,799
		₩ 13,609,190	₩ 11,202,846
Loans in foreign currencies:			
	Domestic loans	₩ 514,981	₩ 338,980
	Offshore loans	10,179	3,952
		₩ 525,160	₩ 342,932

(3) Inter-bank loans for restructuring of small and medium sized enterprises as of December 31, 2006 and 2005 were as follows:

		Won in millions	
		2006	2005
Industrial Bank of Korea		₩ 156,956	₩ 141,520
Kookmin Bank		13,464	12,097
Woori Bank		29,800	22,655
Korea Exchange Bank		4,262	6,475
Shinhan Bank		17,732	15,414
Kyongnam Bank		6,569	1,837
Others		10,034	3,434
		₩ 238,817	₩ 203,432

NOTES TO FINANCIAL STATEMENTS

The loans to financial institutions excluding inter-bank loans above as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	₩		₩	
Korea Lease Financing Co., Ltd.	₩	6,750	₩	8,703
Lotte Card Co., Ltd.		10,000		20,000
Lotte Capital Co., Ltd.		50,000		40,000
Samsung Card Co., Ltd.		20,000		40,000
LG Card Co., Ltd.		18,592		-
Others		73,830		12,821
	₩	179,172	₩	121,524

(4) Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2006 were as follows:

	Loans in local currency		Loans in foreign currencies		Total	Percentage(%)	
Large corporations	₩	727,595	₩	153,029	₩	880,624	6.23
Small and medium corporations		8,763,838		372,131		9,135,969	64.64
Households		3,675,970		-		3,675,970	26.01
Public sector and other		441,787		-		441,787	3.12
	₩	13,609,190	₩	525,160	₩	14,134,350	100.00

Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2005 were as follows:

	Loans in local currency		Loans in foreign currencies		Total	Percentage(%)	
Large corporations	₩	694,344	₩	97,534	₩	791,878	6.86
Small and medium corporations		6,670,232		245,398		6,915,630	59.90
Households		3,544,923		-		3,544,923	30.70
Public sector and other		293,347		-		293,347	2.54
	₩	11,202,846	₩	342,932	₩	11,545,778	100.00

(5) Loans in local currency and loans in foreign currencies, classified by industry, as of December 31, 2006 were as follows:

	Loans in local currency		Loans in foreign currencies		Total	Percentage(%)	
Manufacturing	₩	4,570,820	₩	300,083	₩	4,870,903	34.46
Wholesale and retail		1,286,280		34,717		1,320,997	9.35
Real estate and renting		990,496		4,847		995,343	7.04
Finance and insurance		389,241		28,748		417,989	2.96
Lodgings and foods		295,187		29,462		324,649	2.30
Households		3,675,970		-		3,675,970	26.01
Public sector		441,787		-		441,787	3.13
Others		1,959,409		127,303		2,086,712	14.75
	₩	13,609,190	₩	525,160	₩	14,134,350	100.00

NOTES TO FINANCIAL STATEMENTS

Loans in local currency and loans in foreign currencies, classified by industry, as of December 31, 2005 were as follows:

	Loans in local currency		Loans in foreign currencies		Total	Percentage(%)	
	₩		₩		₩		
Manufacturing	₩	3,602,083	₩	208,531	₩	3,810,614	33.00
Wholesale and retail		963,218		23,556		986,774	8.55
Real estate and renting		677,356		8,217		685,573	5.94
Finance and insurance		313,496		11,460		324,956	2.81
Lodgings and foods		238,070		2,520		240,590	2.08
Households		3,544,923		-		3,544,923	30.70
Public sector		293,347		-		293,347	2.54
Others		1,570,353		88,648		1,659,001	14.38
	₩	11,202,846	₩	342,932	₩	11,545,778	100.00

(6) Loans in foreign currencies, classified by borrower's country, as of December 31, 2006 and 2005 were as follows:

By country	2006		2005			
	Amount	Percentage(%)	Amount	Percentage(%)		
Korea	₩	514,184	97.91	₩	333,408	97.22
United Kingdom		-	-		2,533	0.74
China		797	0.15		3,039	0.89
Indonesia		10,179	1.94		2,634	0.77
Panama		-	-		1,318	0.38
	₩	525,160	100.00	₩	342,932	100.00

6. RESTRUCTURED LOANS

(1) Present value discounts from restructured loans, which were classified as allowance for possible loan losses as of December 31, 2006, were as follows:

	Discount rates(%)	Loans	Present value discounts								
			Beginning balance	Addition	Deduction	Ending balance					
Reorganization and court mediation	4.80 ~ 9.75	₩	15,870	₩	1,842	₩	789	₩	1,468	₩	1,163
Workout	5.00 ~ 6.75		3,608		424		97		521		-
		₩	19,478	₩	2,266	₩	886	₩	1,989	₩	1,163

(2) Present value discounts from restructured loans as of December 31, 2005 were as follows:

	Discount rates(%)	Loans	Present value discounts								
			Beginning balance	Addition	Deduction	Ending balance					
Reorganization and court mediation	6.75 ~ 9.75	₩	24,082	₩	2,484	₩	1,550	₩	2,192	₩	1,842
Workout	4.75 ~ 9.75		5,893		830		219		625		424
		₩	29,975	₩	3,314	₩	1,769	₩	2,817	₩	2,266

Fixed rate loans are discounted by the original agreed interest rate, and floating rate loans are discounted by the interest rate at the restructuring of the loans plus the interest rate spread reflecting debtors' credit at the origination of the loans.

NOTES TO FINANCIAL STATEMENTS

7. ALLOWANCE FOR POSSIBLE LOAN LOSSES

(1) The allowance for possible loan losses (excluding present value discounts from restructured loan) as of December 31, 2006 was summarized as follows:

	Won in millions					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	¥ 120,336	¥ 27,081	¥ 17,018	¥ 12,036	¥ 16,048	¥ 192,519
Loans in foreign currencies	4,012	28	340	-	1,140	5,520
Bills bought in local currency	1,046	-	-	-	-	1,046
/Bills bought in foreign currencies	-	101	46	-	321	653
Advances for customers	7,897	2,506	32	2,388	1,184	14,007
Credit card receivables	2,771	-	-	-	-	2,771
Privately placed bonds	1,988	127	156	350	417	3,038
Others	1,988	127	156	350	417	3,038
	¥ 138,050	¥ 29,843	¥ 17,592	¥ 14,959	¥ 19,110	¥ 219,554

The allowance for possible loan losses (excluding present value discounts from restructured loan) as of December 31, 2005 was summarized as follows:

	Won in millions					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	¥ 99,311	¥ 26,737	¥ 17,612	¥ 12,472	¥ 4,478	¥ 160,610
Loans in foreign currencies	2,009	173	1,321	1,265	6	4,774
Bills bought in local currency	1,117	8	6	-	-	1,131
/Bills bought in foreign currencies	6	22	54	284	8	374
Advances for customers	8,114	4,532	32	2,876	1,187	16,741
Credit card receivables	603	203	-	-	-	806
Privately placed bonds	1,411	41	254	71	29	1,806
Others	1,411	41	254	71	29	1,806
	¥ 112,571	¥ 31,716	¥ 19,279	¥ 16,968	¥ 5,708	¥ 186,242

(2) The allowance for possible loan losses, net of present value discounts to total loans, is summarized as follows:

	Won in millions		
	Loans	Allowance for possible loan losses	Percentage(%)
December 31, 2004	¥ 10,805,679	¥ 155,005	1.43
December 31, 2005	11,915,714	186,242	1.56
December 31, 2006	14,607,149	219,554	1.50

(3) The changes in allowance for possible loan losses (excluding present value discounts from restructured loan) for the years ended December 31, 2006 and 2005 were as follows:

	Won in millions	
	2006	2005
Beginning balance	¥ 186,242	¥ 155,005
Present value discounts	273	(2,167)
Loans written-off	(39,091)	(86,837)
Changes in exchange rates	(227)	(84)
Collection of previously written-off loans	21,620	34,473
	168,817	100,390
Provision for possible loan losses	50,737	85,852
	¥ 219,554	¥ 186,242

NOTES TO FINANCIAL STATEMENTS

8. FIXED ASSETS

(1) Fixed assets as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Won in millions			
Tangible assets	₩	356,372	₩	339,923
Intangible assets		8,031		7,449
	₩	364,403	₩	347,372

(2) Tangible assets as of December 31, 2006 and 2005 were as follows:

	Acquisition cost		Accumulated depreciation	
	Won in millions			
	2006	2005	2006	2005
Land	₩	172,588	₩	171,469
Buildings		119,213		107,938
Leasehold improvements		23,233		18,874
Equipment and vehicles		209,178		190,070
Construction in progress		19,597		19,284
	₩	543,809	₩	507,635
			₩	187,437
			₩	167,712

(3) The published value of land as December 31, 2006 and 2005 were as follows:

	Book value		Published value	
	Won in millions			
	2006	2005	2006	2005
Land	₩	172,588	₩	136,920
			₩	133,322

(4) Tangible assets, which have been insured as of December 31, 2006, were as follows:

Type of insurance	Insured assets	Book value		Insured amount	
Won in millions					
Property composite	Buildings	₩	103,337	₩	103,337
	Fixtures		8,677		8,677
	Others		51,092		51,092
		₩	163,106	₩	163,106

Tangible assets, which have been insured as of December 31, 2005, were as follows:

Type of insurance	Insured assets	Book value		Insured amount	
Won in millions					
Property composite	Buildings	₩	94,309	₩	94,309
	Fixtures		5,267		5,267
	Others		49,114		49,114
		₩	148,690	₩	148,690

NOTES TO FINANCIAL STATEMENTS

(5) The changes in book value of tangible assets for the year ended December 31, 2006 consisted of the following:

	Won in millions					
	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 171,469	₩ 1,831	₩ 712	₩ -	₩ -	₩ 172,588
Buildings	94,309	5,313	594	6,629	2,320	103,337
Leasehold improve-ments	5,267	-	106	5,999	2,483	8,677
Equipment and vehicles	49,594	29,470	80	-	26,811	52,173
Construction in progress	19,284	12,941	-	(12,628)	-	19,597
	₩ 339,923	₩ 49,555	₩ 1,492	₩ -	₩ 31,614	₩ 356,372

The changes in book value of tangible assets for the year ended December 31, 2005 consisted of the following:

	Won in millions					
	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 171,408	₩ 2,735	₩ 2,674	₩ -	₩ -	₩ 171,469
Buildings	86,898	2,972	1,440	7,971	2,092	94,309
Leasehold improve-ments	4,839	-	210	2,484	1,846	5,267
Equipment and vehicles	52,731	24,784	127	-	27,794	49,594
Construction in progress	19,322	10,417	-	(10,455)	-	19,284
	₩ 335,198	₩ 40,908	₩ 4,451	₩ -	₩ 31,732	₩ 339,923

(6) Intangible assets as of December 31, 2006 and 2005 consisted of the following:

	Won in millions			
December 31, 2006	Beginning	Accumulated amortization	Accumulated impairment loss	Ending
Goodwill	₩ 25	₩ 8	₩ -	₩ 17
Software	14,680	7,976	-	6,704
Others	2,055	745	-	1,310
	₩ 16,760	₩ 8,729	₩ -	₩ 8,031

	Won in millions			
December 31, 2005	Beginning	Accumulated amortization	Accumulated impairment loss	Ending
Goodwill	₩ 25	₩ 3	₩ -	₩ 22
Software	21,018	15,021	-	5,997
Others	2,073	643	-	1,430
	₩ 23,116	₩ 15,667	₩ -	₩ 7,449

NOTES TO FINANCIAL STATEMENTS

(7) The changes in intangible assets for the years ended December 31, 2006 and 2005 were as follows:

December 31, 2006	Won in millions			
	Beginning	Increase	Amortization	Ending
Goodwill	₩ 22	₩ -	₩ 5	₩ 17
Software	5,997	3,141	2,434	6,704
Others	1,430	-	120	1,310
	₩ 7,449	₩ 3,141	₩ 2,559	₩ 8,031

December 31, 2005	Won in millions			
	Beginning	Increase	Amortization	Ending
Goodwill	₩ -	₩ 25	₩ 3	₩ 22
Software	6,530	2,414	2,947	5,997
Others	1,553	-	123	1,430
	₩ 8,083	₩ 2,439	₩ 3,073	₩ 7,449

9. OTHER ASSETS

(1) Other assets as of December 31, 2006 and 2005 consisted of the following:

	Won in millions	
	2006	2005
Guarantee deposits	₩ 106,910	₩ 100,279
Accounts receivable	159,017	84,314
Accrued income	112,503	120,902
Prepaid expenses	4,960	11,098
Derivatives assets (see Note 16)	16,994	24,741
Deferred income tax assets (see Note 23)	2,088	-
Domestic exchange settlements debits	53,678	133,953
Sundry assets	10,302	12,097
	466,452	487,384
Present value discounts	-	(140)
	₩ 466,452	₩ 487,244

(2) Sundry assets as of December 31, 2006 and 2005 consisted of the following:

	Won in millions	
	2006	2005
Supplies	₩ 774	₩ 588
Deposit money in court	3,333	3,373
Membership rights	2,144	2,153
Unsettled spot exchanges receivable	678	2,436
Suspense receivable	3,372	3,546
Others	1	1
	₩ 10,302	₩ 12,097

10. DEPOSITS

(1) Deposits as of December 31, 2006 and 2005 consisted of the following:

	Won in millions	
	2006	2005
Deposits in local currency	₩ 13,132,697	₩ 12,923,076
Deposits in foreign currencies	160,347	142,510
Certificates of deposits	1,264,670	596,875
	₩ 14,557,714	₩ 13,662,461

NOTES TO FINANCIAL STATEMENTS

(2) Deposits in local currency as of December 31, 2006 and 2005 consisted of the following:

	Interest rate(%)	2006		2005	
		₩	US\$	₩	US\$
Demand deposits in local currency:					
Checking deposits	-	₩ 73,764		₩ 76,633	
Household checking deposits	0.10	16,778		17,403	
Temporary deposits	0.00 ~ 2.0	480,257		470,742	
Passbook deposits	0.10	833,755		676,616	
Public fund deposits	1.00	163,526		173,877	
National Treasury deposits	0.10	202		155	
		₩ 1,568,282		₩ 1,415,426	
Time deposits and savings deposits in local currency:					
Savings deposits	0.10 ~ 4.00	3,263,672		3,306,579	
Corporate savings deposits	0.00 ~ 4.61	1,622,742		1,282,098	
Time deposits	1.00 ~ 5.55	5,705,500		5,827,855	
Installment savings deposits	1.00 ~ 6.35	632,220		670,927	
Long-term housing savings deposits	1.00 ~ 11.50	139,554		101,392	
Long-term savings for households	1.00	127		340	
Workers' preferential savings deposits	1.00 ~ 6.20	60,674		134,637	
		₩ 11,424,489		₩ 11,323,828	
Mutual installment deposits	1.00 ~ 6.00	81,743		97,345	
Mutual installment for housing	1.00 ~ 4.70	58,183		86,477	
		₩ 13,132,697		₩ 12,923,076	

(3) Deposits in foreign currencies as of December 31, 2006 and 2005 consisted of the following:

	2006				2005			
	In foreign currency ^(*)		In local currency		In foreign currency ^(*)		In local currency	
	US\$	₩	US\$	₩	US\$	₩	US\$	₩
Checking deposits	6,087	₩ 5,658	3,162	₩ 3,203				
Passbook deposits	115,855	₩ 107,699	103,754	₩ 105,103				
Notice deposits	24,898	₩ 23,145	8,771	₩ 8,885				
Time deposits	25,564	₩ 23,765	24,860	₩ 25,183				
Temporary deposits	86	₩ 80	134	₩ 136				
	US\$ 172,490	₩ 160,347	US\$ 140,681	₩ 142,510				

(*) translated into U.S. dollars equivalent.

(4) Deposits with financial institutions as of December 31, 2006 and 2005 were as follows:

	Financial institutions	2006		2005	
		₩	US\$	₩	US\$
Deposits in local currency	Banks	₩ 377,116		₩ 10,991	
	Others	340,182		284,750	
		₩ 717,298		₩ 295,741	

11. BORROWINGS

(1) Borrowings as of December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	₩	US\$	₩	US\$
Borrowings in local currency	₩ 1,190,219		₩ 1,129,615	
Borrowings in foreign currencies	1,379,060		1,113,994	
Bonds sold under repurchase agreement	1,359,346		899,996	
Bills sold	234,302		17,915	
	₩ 4,162,927		₩ 3,161,520	

NOTES TO FINANCIAL STATEMENTS

(2) Borrowings in local currency as of December 31, 2006 and 2005 consisted of the following:

Description	Lenders	Annual interest rate(%)	Won in millions	
			2006	2005
Borrowings from SME Fund	SME Association	2.00 ~ 4.90	₩ 509,231	₩ 423,495
Borrowings from the Bank of Korea	The Bank of Korea	2.75	411,896	410,781
Borrowings from Energy Fund	Korea Energy Management Corporation	2.00 ~ 4.50	54,263	41,839
Borrowings from Autonomy Fund	Busan Metropolitan City	4.20 ~ 4.42	31,563	58,063
Borrowings from Gyeongsangnamdo SME Fund	Nonghyup	1.50 ~ 5.10	34,043	32,775
Borrowings from Industrial Infrastructure Fund	Industrial Bank of Korea	2.58 ~ 4.00	31,767	42,399
Other borrowings	Others	0.00 ~ 5.50	117,456	120,263
			₩ 1,190,219	₩ 1,129,615

(3) Borrowings in foreign currencies as of December 31, 2006 and 2005 consisted of the following:

Lenders	Annual interest rate(%)	Won in millions	
		2006	2005
Korea Exchange Bank and others	0.63 ~ 5.65	₩ 422,530	₩ 264,826
SMBC and others	0.60 ~ 5.84	665,199	578,227
The Korea Development Bank	-	-	500
SCB and others	LIBOR+0.25, 5.51 ~ 5.80	291,331	270,441
		₩ 1,379,060	₩ 1,113,994

(4) Bonds sold under repurchase agreements and bills sold as of December 31, 2006 and 2005 consisted of the following:

Account	Financial institution	Annual interest rate(%)	Won in millions	
			2006	2005
Bonds sold under repurchase agreements	Individuals and Corporations	1.0 ~ 5.3	₩ 1,359,346	₩ 899,996
Bills sold	Individuals and Corporations	3.54 ~ 4.85	234,302	17,915
			₩ 1,593,648	₩ 917,911

(5) Borrowings in local or foreign currencies from financial institutions as of December 31, 2006 and 2005 were as follows:

Financial institutions	Won in millions	
	2006	2005
Borrowings in local currency:		
The Bank of Korea	₩ 411,896	₩ 410,781
Woori Bank	792	927
Nonghyup	34,043	32,775
Hana Bank	1,311	1,434
Kwangju Bank	2,720	1,040
The Korea Development Bank	2,112	2,402
Industrial Bank of Korea	31,767	42,399
Kyongnam Bank	2,499	3,466
Kookmin Bank	-	10
Daegu Bank	5,180	1,736
	492,320	496,970
Borrowings in foreign currencies:		
Foreign banks	1,379,060	1,113,994
	₩ 1,871,380	₩ 1,610,964

NOTES TO FINANCIAL STATEMENTS

12. DEBENTURES

Debentures in local currency as of December 31, 2006 and 2005 consisted of the following (Unit: Won in millions):

Description	Issued date	Expiration date	Annual interest rate(%)	Won in millions	
				2006	2005
Subordinated debentures in local currency	Jun-01	Jan-07	8.05	₩ 100,000	₩ 100,000
	Apr-02	Jan-08	7.30~7.35	100,000	100,000
	Apr-05	Jan-11	5.18~5.20	175,000	175,000
	Dec-06	Dec-12	5.30	100,000	-
Unsecured debentures in local currency	Dec-04	Jun-06	3.40	-	40,000
	Nov-06	Nov-07	4.60	100,000	-
	Oct-06	Oct-08	4.78	200,000	-
	Nov-06	May-08	4.87	20,000	-
	Dec-06	Dec-08	4.98	80,000	-
			875,000	415,000	
Gain on valuation of fair value hedged items			(3,118)	(5,655)	
			871,882	409,345	
Discounts on debentures			(4,257)	(661)	
			₩ 867,625	₩ 408,684	

13. OTHER LIABILITIES

(1) Other liabilities as of December 31, 2006 and 2005 consisted of the following:

Financial institutions	Won in millions	
	2006	2005
Accrued severance benefits (see Note 14)	₩ 46,634	₩ 37,899
Less: National pension fund	(18)	(23)
Less: Severance insurance deposits	(40,046)	(30,813)
Allowance for possible losses on acceptances and guarantees (see Note 15)	4,087	2,842
Allowance for possible losses on the unused limits (see Note 17)	19,630	12,493
Other allowance	3,690	2,692
Due to trust accounts	123,053	136,530
Unsettled foreign exchange liabilities	3,865	2,094
Domestic exchange settlement credits	60,973	6,143
Accounts payable (see Note 19)	164,602	81,542
Accrued expenses	278,287	214,168
Unearned revenues	21,981	19,079
Guarantees deposits received	16,955	14,550
Withholding taxes	9,054	9,435
Derivatives liabilities (see Note 16)	34,770	33,894
Accounts for agency business	19,366	18,508
Agency	32,937	38,739
Deferred income tax liabilities (see Note 23)	-	7,072
Sundry liabilities	43,867	63,846
	₩ 843,687	₩ 670,690

NOTES TO FINANCIAL STATEMENTS

(2) Sundry liabilities included in other liabilities as of December 31, 2006 and 2005 consisted of the following:

	Won in millions	
	2006	2005
Borrowings from cash delivery for other banks for securities	₩ 4,495	₩ 4,652
Subscription deposits	5,498	4,297
Suspense receipts	2,781	2,620
Prepaid card liabilities	2,488	2,211
Debit card liabilities	61	61
Accrued corporation tax	28,544	49,405
Others	-	600
	₩ 43,867	₩ 63,846

14. ACCRUED SEVERANCE BENEFITS

The changes in accrued severance benefits for the years ended December 31, 2006 and 2005 were as follows:

	Won in millions	
	2006	2005
At the beginning of the year	₩ 37,899	₩ 21,749
Payment	6,787	1,658
Provision (see Note 21)	15,522	17,808
At the end of the year	₩ 46,634	₩ 37,899

15. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES

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

Types	Won in millions	
	2006	2005
Confirmed acceptances and guarantees in local currency:		
Payment guarantee for loans	₩ 54,455	₩ 44,687
Others	199,891	186,570
	254,346	231,257
Confirmed acceptances and guarantees in foreign currencies:		
Acceptances on letters of credit	14,055	5,434
Acceptances for letters of guarantee for importers	18,875	12,837
Guarantees on credit derivatives	37,184	20,260
Others	123,840	34,148
	193,954	72,679
	448,300	303,936
Unconfirmed acceptances and guarantees:		
Letters of credit	316,078	231,638
Other	464	-
	316,542	231,638
	₩ 764,842	₩ 535,574

NOTES TO FINANCIAL STATEMENTS

(2) Acceptances and guarantees, by industry, as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Amount	Percentage(%)	Amount	Percentage(%)
Won in millions				
Confirmed:				
Manufacturing	₩ 223,935	49.95	₩ 176,489	58.07
Wholesale and retail	89,041	19.86	72,103	23.72
Finance and insurance	28,280	6.31	1,309	0.43
Construction	62,854	14.02	19,677	6.47
Public sector and others	-	-	2,080	0.69
Others	44,190	9.86	32,278	10.62
	₩ 448,300	100.00	₩ 303,936	100.00
Unconfirmed:				
Manufacturing	₩ 212,165	67.02	₩ 146,452	63.22
Wholesale and retail	92,858	29.34	82,826	35.76
Finance and insurance	1,086	0.34	154	0.07
Construction	10	0.01	408	0.18
Public sector and others	-	-	1,516	0.65
Others	10,423	3.29	282	0.12
	₩ 316,542	100.00	₩ 231,638	100.00

(3) Acceptances and guarantees, by customer, as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Amount	Percentage(%)	Amount	Percentage(%)
Won in millions				
Confirmed:				
Large corporations	₩ 78,669	17.55	₩ 51,706	17.01
Small and medium-sized corporation	367,566	81.99	249,596	82.12
Household sector	2,065	0.46	554	0.18
Public sector and others	-	-	2,080	0.69
	₩ 448,300	100.00	₩ 303,936	100.00
Unconfirmed:				
Large corporations	₩ 57,970	18.31	₩ 37,048	15.99
Small and medium-sized corporation	258,572	81.69	193,074	83.35
Public sector and others	-	-	1,516	0.66
	₩ 316,542	100.00	₩ 231,638	100.00

(4) Acceptances and guarantees, by country, as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Amount	Percentage(%)	Amount	Percentage(%)
Won in millions				
Confirmed:				
Korea	₩ 420,412	93.78	₩ 293,806	96.67
France	18,592	4.15	10,130	3.33
USA	9,296	2.07	-	-
	₩ 448,300	100.00	₩ 303,936	100.00
Unconfirmed:				
Korea	₩ 316,542	100.00	₩ 231,638	100.00

NOTES TO FINANCIAL STATEMENTS

(5) Allowance for possible losses on acceptances and guarantees and endorsed note as of December 31, 2006 and 2005 were as follows:

	2006			2005		
	Outstanding balance	Allowance	Percentage(%)	Outstanding balance	Allowance	Percentage(%)
Won in millions						
Confirmed:						
Normal	₩ 444,157	₩ 2,852	0.64	₩ 299,569	₩ 1,470	0.49
Precautionary	4,093	286	6.99	3,591	455	12.67
Substandard	50	10	20.00	775	263	33.94
Doubtful	-	-	-	1	1	78.99
Estimated loss	-	-	-	-	-	-
	448,300	3,148	0.70	303,936	2,189	0.72
Unconfirmed:						
Normal	315,032	834	0.26	229,639	594	0.26
Precautionary	1,409	39	2.77	1,384	19	1.37
Substandard	-	-	-	615	38	6.18
Doubtful	-	-	-	-	-	-
Estimated loss	101	20	19.80	-	-	-
	316,542	893	0.28	231,638	651	0.28
Endorsed note:						
Normal	10,283	36	0.35	371	2	0.54
Precautionary	296	10	3.38	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Estimated loss	-	-	-	-	-	-
	10,579	46	0.43	371	2	0.54
	₩ 775,421	₩ 4,087	0.53	₩ 535,945	₩ 2,842	0.53

(6) The percentage of allowance for possible losses on acceptances and guarantees to outstanding balances as of December 31, 2004, 2005 and 2006 were as follows:

	Confirmed			Unconfirmed			Endorsed note		
	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)
2004	₩ 251,195	₩ 428	0.17	₩ 258,425	₩ -	-	₩ 438	₩ -	-
2005	303,936	2,189	0.72	231,638	651	0.28	371	2	0.54
2006	448,300	3,148	0.70	316,542	893	0.28	10,579	46	0.43

NOTES TO FINANCIAL STATEMENTS

16. DERIVATIVES INSTRUMENTS

(1) The notional amounts outstanding for derivative contracts as December 31, 2006 and 2005 were as follows:

Type	Won in millions					
	2006			2005		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards ^(*)	₩1,543,049	₩ -	₩1,543,049	₩1,619,657	₩ -	₩1,619,657
Currency swaps	189,341	-	189,341	15,944	-	15,944
Currency options purchased	180,693	-	180,693	125,207	-	125,207
Currency options sold	180,693	-	180,693	125,207	-	125,207
	2,093,776	-	2,093,776	1,886,015	-	1,886,015
Interest rate:						
Interest rate swaps ^(*)	735,398	250,000	985,398	162,080	250,000	412,080
Interest rate futures	-	-	-	5,373	-	5,373
Interest rate option	1,149	-	1,149	-	-	-
	736,547	250,000	986,547	167,453	250,000	417,453
Stock:						
Stock options purchased	2,359	-	2,359	7,421	-	7,421
Stock options sold	2,359	-	2,359	7,421	-	7,421
Stock index futures	-	-	-	3,548	-	3,548
	4,718	-	4,718	18,390	-	18,390
	₩2,835,041	₩ 250,000	₩3,085,041	₩2,071,858	₩ 250,000	₩ 2,321,858

(*) For transaction between local currency and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate 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 on the contract amount in foreign currencies purchased.

(2) As of and for the years ended December 31, 2006 and 2005, outstanding contract amount, gain or loss on valuation of derivative instruments in the statements of income, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets were as follows:

	Won in millions					
	2006					
	Gain on valuation		Loss on valuation		Assets	Liabilities
Trading	Hedge	Trading	Hedge			
Currency:						
Currency forwards	₩ 6,706	₩ -	₩ 21,931	₩ -	₩ 6,753	₩ 21,932
Currency swaps	2,681	-	2,680	-	2,680	2,680
Currency options purchased	1,573	-	1,198	-	3,093	-
Currency options sold	1,266	-	1,456	-	-	3,093
	12,226	-	27,265	-	12,526	27,705
Interest rate:						
Interest rate swaps	1,017	2,537	422	-	943	3,540
Interest rate options purchased	129	-	1	-	502	201
Interest rate options Sold	1	-	129	-	201	502
	1,147	2,537	552	-	1,646	4,243
Stock:						
Stock options purchased	640	-	3,131	-	1,311	1,511
Stock options sold	3,131	-	640	-	1,511	1,311
	3,771	-	3,771	-	2,822	2,822
	₩ 17,144	₩ 2,537	₩ 31,588	₩ -	₩ 16,994	₩ 34,770

NOTES TO FINANCIAL STATEMENTS

Won in millions

	2005					
	Gain on valuation		Loss on valuation		Assets	Liabilities
	Trading	Hedge	Trading	Hedge		
Currency:						
Currency forwards	₩ 13,527	₩ -	₩ 17,092	₩ -	₩ 13,527	₩ 17,092
Currency swaps	110	-	110	-	110	110
Currency options purchased	279	-	861	-	662	-
Currency options sold	904	-	264	-	-	662
	14,820	-	18,327	-	14,299	17,864
Interest rate:						
Interest rate swaps	67	-	-	5,655	67	5,655
	67	-	-	5,655	67	5,655
Stock:						
Stock options purchased	1,528	-	-	-	10,375	-
Stock options sold	-	-	1,528	-	-	10,375
	1,528	-	1,528	-	10,375	10,375
	₩ 16,415	₩ -	₩ 19,855	₩ 5,655	₩ 24,741	₩ 33,894

The hedged items, to which fair value hedge accounting was applied, were debentures in local currency and hedging derivative instruments, such as interest rate swap, were used to cover exposures to changes in fair values of the hedged items resulting from interest rate changes.

17. CONTINGENCIES AND COMMITMENTS

(1) The unused limits of credit card purchase and loan agreement as of December 31, 2006 and December 31, 2005 were as follows:

Type	Won in millions	
	2006	2005
Unused limit of loan agreement	₩ 2,978,255	₩ 3,393,813
Unused limit of credit cards purchase	1,263,756	975,587
	₩ 4,242,011	₩ 4,369,400

(*) Amounts for allowance for possible losses on the unused limits (see Note 2)

The allowance for possible losses on the unused limits amounts to ₩19,630 million and ₩12,493 million as of December 31, 2006 and 2005, respectively.

(2) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩604,601 million and ₩593,438 million as of December 31, 2006 and 2005, respectively.

(3) As of December 31, 2006, the Bank faces 16 pending legal actions involving aggregate damages of ₩10,078 million. On the other hand, the Bank also has filed 28 lawsuits, which are still pending, with aggregate claims of ₩40,520 million. The Bank believes that the result of the litigations does not significantly affect the financial statements.

(4) Disposal of loans

For past several years, the Bank sold its loans primarily to Korean Asset Management Corporation ("KAMCO"). In accordance with its agreement with KAMCO, the initial sales price was preliminary and subject to final settlement. Accordingly, the gain (loss) on sale of loans will be adjusted based on the final sales value to be determined at the time of final settlement.

The long-term loans restructured through court receivership, court mediation, workout plans and others were sold under repurchase agreements under which the Bank should repurchase the loans sold even after the final settlement, if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreements as of December 31, 2006 and 2005 amounted to ₩6,606 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

NOTES TO FINANCIAL STATEMENTS

18. SHAREHOLDERS' EQUITY

(1) Common stock

As of December 31, 2006 the Bank has 400 million common shares authorized with a par value per share of ₩5,000 and 146,683,650 shares has been issued.

(2) Retained earnings

Retained earnings as of December 31, 2006 and 2005 were summarized as follows:

Type	2006		2005	
	₩		₩	
Legal reserve	₩	58,097	₩	40,203
Voluntary reserve		299,255		197,622
Retained earnings before appropriations		183,856		178,934
	₩	541,208	₩	416,759

1) Legal reserve

The Banking Act requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve each time when a bank pays dividends, 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.

(3) Capital adjustments

Changes in gain (loss) on valuation of available-for-sale securities and securities using the equity method [see Note 4(9)]

19. STOCK OPTIONS

(1) The Bank granted stock options to its executives according to the resolution of special meeting of shareholders or the board of directors. The options granted as of December 31, 2006 were as follows:

Grant date	Stock options				Exercise price	Exercise period
	Granted	Exercised	Forfeited	Outstanding		
2000.7.14	130,000	89,863	40,137	-	₩ 5,000	2003.7.15~ 2006.7.14
2001.3.10	100,000	53,369	6,631	40,000	5,000	2004.3.11~ 2007.3.10
2002.3.15	60,000	9,305	13,151	37,544	5,020	2004.3.16~ 2007.3.15
2003.3.25	290,000	8,356	171,644	110,000	5,000	2005.3.26~ 2008.3.25
2004.3.26	110,000	-	9,947	100,053	7,573	2006.3.27~ 2009.3.26
2005.3.25	60,000	-	19,918	40,082	8,366	2007.3.26~ 2010.3.25
2005.4.19	40,000	-	-	40,000	8,095	2007.4.20~ 2010.4.19
2005.5.17	20,000	-	-	20,000	8,029	2007.5.18~ 2010.5.17
2006.3.28	130,000	-	-	130,000	12,811	2008.3.29~ 2011.3.28
2006.4.18	180,000	-	-	180,000	13,762	2008.4.19~ 2011.4.18
	1,120,000	160,893	261,428	697,679		

(2) The Bank settles the stock options by paying in cash the difference between the exercise price and the market price at the exercise date. The stock options are valued using intrinsic value method. Accordingly, the stock compensation cost is accounted for as expense (payroll) and liability (accounts payable) over the agreed service period with the straight line method.

The reversal of stock compensation expenses for the year ended December 31, 2006 amounts to ₩747 million and the stock compensation expenses amounted to ₩2,915 million for the year ended December 31, 2005. The stock compensation expenses to be booked after December 31, 2006 amount to ₩214 million.

NOTES TO FINANCIAL STATEMENTS

20. INTEREST REVENUE AND EXPENSES:

(1) 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:

	2006		2005	
	Average balance	Interest revenue /expense	Average balance	Interest revenue /expense
Won in millions				
Assets:				
Due from banks	₩ 377,766	₩ 15,015	₩ 806,895	₩ 17,712
Securities	4,839,102	220,912	4,419,940	197,079
Loans	13,640,416	931,044	11,998,236	794,333
Others ^(*)	-	5,611	-	6,476
	₩ 18,857,284	₩ 1,172,582	₩ 17,225,071	₩ 1,015,600
Liabilities:				
Deposits	₩ 13,707,812	₩ 369,963	₩ 13,021,727	₩ 310,071
Borrowings	3,901,895	146,053	2,743,222	76,340
Debentures	448,776	31,141	510,181	30,073
Others (*)	149,481	8,071	162,992	6,380
	₩ 18,207,964	₩ 555,228	₩ 16,438,122	₩ 422,864

(*) Interest revenue and expense on others includes the items that don't have average balances.

21. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Selling and administrative expenses for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
Won in millions				
Salaries	₩ 115,481		₩ 115,945	
Provision for severance benefits	15,522		17,808	
Other employee benefits	84,597		81,397	
Rent	4,642		4,349	
Expenditure for business purpose	3,708		3,296	
Depreciation and amortization	34,173		34,804	
Taxes and dues	13,086		11,845	
Other selling and administrative expenses	57,838		51,440	
	₩ 329,047		₩ 320,884	

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

	2006		2005	
Won in millions				
Communication	₩ 3,270		₩ 2,936	
Electricity and utilities	2,702		2,620	
Publication	2,880		2,709	
Repairs maintenance	2,771		2,058	
Vehicle	1,223		1,429	
Travel	1,108		1,600	
Supplies	4,033		3,637	
Advertising	3,653		2,735	
Service charges	30,474		26,999	
Others	5,724		4,717	
	₩ 57,838		₩ 51,440	

NOTES TO FINANCIAL STATEMENTS

22. NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2006 and 2005 were as follows:

	Won in millions	
	2006	2005
Non-operating income:		
Gain on disposal of tangible assets	₩ 578	₩ 440
Gain on valuation of securities using the equity method	480	419
Gain on disposal of securities using the equity method	-	543
Rental income	316	348
Gain on disposal of available-for-sale securities	16,801	16,476
Gain on sale of loans	1,848	6,953
Others	10,125	18,478
	₩ 30,148	₩ 43,657
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 13	₩ 228
Loss on valuation of securities using the equity method	262	106
Loss on disposal of available-for-sale securities	-	237
Loss on impairment of available-for-sale securities (see Note 4)	28	372
Severance benefits	34,410	5,590
Loss on sale of loans	682	7,068
Contribution	6,565	6,106
Others	11,617	8,404
	₩ 53,577	₩ 28,111

23. 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:

	Won in millions	
	2006	2005
Income before income tax	₩ 257,428	₩ 249,575
Taxable and non-deductible items:		
Temporary difference	149,181	173,553
Permanent difference	11,462	11,235
	160,643	184,788
Deductible and non-taxable items:		
Temporary difference	(105,949)	(160,533)
Permanent difference	(194)	(284)
	(106,143)	(160,817)
Taxable income	₩ 311,928	₩ 273,546

NOTES TO FINANCIAL STATEMENTS

(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets for the year ended December 31, 2006 were as follows:

	Won in millions			
	Beginning balance	Deduction	Addition	Ending balance
Loss on valuation of securities	₩ 6,474	₩ -	₩ 136	₩ 6,610
Accrued interest of securities	(73,470)	(73,470)	(56,094)	(56,094)
Gain on valuation of securities	(23,333)	(3,233)	-	(20,100)
Revaluation surplus (land)	(6,064)	-	-	(6,064)
Unrealized loss on disposal of assets	46	46	-	-
Gain (loss) on valuation of securities using the equity method	5,998	218	-	5,780
Accumulated depreciation	(1,558)	(11)	-	(1,547)
Other allowance	15,065	-	8,255	23,320
Non-operating expenses	6,370	120	-	6,250
Deemed dividends	4	-	-	4
Stock option	3,823	2,005	-	1,818
Allowance for possible losses of confirmed acceptances and guarantees	2,842	-	1,245	4,087
Present value discounts	56	56	-	-
Gain (loss) on valuation of derivatives	9,095	9,095	17,515	17,515
Gain on disposal of securities using the equity method	(543)	-	-	(543)
Others	15,644	5,712	12,713	22,645
	(39,551)	(59,462)	(16,230)	3,681
Less:				
Revaluation surplus (land)	6,027	-	-	6,027
Gain (loss) on valuation of securities accounted for using the equity method	3,154	-	480	3,634
Add: Valuation of securities (Capital adjustments)	5,032	-	(10,782)	(5,750)
	(25,338)	₩ (59,462)	₩ (26,532)	7,592
Statutory tax rate	27.5%			27.5%
Deferred income tax assets (liabilities) ^(*)	₩ (6,968)			₩ 2,088

(*) The difference of temporary differences, ₩379 million (₩104 million of deferred income tax effect) in preparing a corporation tax return for the year ended December 31, 2005, was adjusted to the amount of deferred income tax liabilities.

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

	Won in millions	
	2006	2005
Income tax currently payable	₩ 85,593	₩ 75,011
Changes in deferred tax liabilities	(9,056)	(5,754)
Changes in deferred income tax reflected directly in capital adjustments	(2,965)	1,384
Income tax expense	₩ 73,572	₩ 70,641

(4) 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. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2006 and 2005 are 28.58 percent and 28.30 percent, respectively.

24. EARNINGS 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.

Net income per share for common stock for the year ended December 31, 2006 was computed as follows:

(1) Outstanding capital stock

	Number of shares	Number of days	Cumulative number of shares
Number of common shares:			
Beginning balance	146,683,650	365	53,539,532,250
	146,683,650		53,539,532,250

Weighted average number of common shares outstanding: $53,539,532,250 \div 365 \text{ days} = 146,683,650 \text{ shares}$

NOTES TO FINANCIAL STATEMENTS

(2) The basic net income per share for the years ended December 31, 2006 and 2005 is as follows.

	2006	2005
		In Won
Net income (=ordinary income, net of tax effect)	₩ 183,856,117,006	₩ 178,933,937,184
Weighted average number of common shares outstanding	146,683,650	146,683,650
Net income per share	₩ 1,253	₩ 1,220
Ordinary income per share	₩ 1,253	₩ 1,220

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

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

Diluted ordinary income per share and diluted net income per share are computed by dividing the ordinary and net income by the number of common shares outstanding plus dilutive securities outstanding during the period. Diluted ordinary income per share and diluted net income per share for the years ended December 31, 2006 and 2005 are not computed because the Bank had no dilutive securities during that period.

25. DIVIDENDS

Cash dividends in 2006 and 2005 were as follows:

	2006	2005
		In Won
Shares issued and outstanding	146,683,650 shares	146,683,650 shares
Par value per share	₩ 5,000	₩ 5,000
Dividend rate	8.4%	8.1%
Cash dividend	₩ 61,607 million	₩ 59,407 million
Net income	₩ 183,856 million	₩ 178,934 million
Payout ratio	33.51%	33.20%
Dividend yield ratio	3.62%	3.06%

26. TERM STRUCTURES OF ASSETS AND LIABILITIES

The term structures of assets and liabilities as of December 31, 2006 and 2005 were as follows:

December 31, 2006	Won in millions					
	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ 81,517	₩ 196,426	₩ 900	₩ -	₩ 345,169	₩ 624,012
Foreign currencies	-	-	-	-	19,343	19,343
Loans:						
Local currency	2,984,224	2,255,625	3,504,566	2,070,666	2,794,109	13,609,190
Foreign currencies	111,026	69,040	113,917	126,898	94,100	514,981
Offshore loans in foreign currencies	151	151	302	9,575	-	10,179
Domestic import usance bill	168,117	73,039	20,497	-	-	261,653
Bills bought in local currency	3,426	-	-	-	-	3,426
Advance for customers	192	-	-	-	1,344	1,536
Bills bought in foreign currencies	122,128	21,171	10,371	-	-	153,670
Credit card receivables	289,626	15,270	8,403	3,393	486	317,178
Factoring receivables	-	-	-	-	166	166
Bonds sold under repurchased agreements	60,000	-	-	-	-	60,000
Privately placed bonds	400	20,000	16,000	157,550	-	193,950

Continued

NOTES TO FINANCIAL STATEMENTS

Won in millions

December 31, 2006	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Deposits:						
Local currency	4,059,967	1,513,207	1,953,989	404,039	5,201,495	13,132,697
Negotiable certificate of deposits	481,626	483,681	299,363	-	-	1,264,670
Foreign currencies	30,583	4,499	3,480	2,668	119,117	160,347
Borrowings:						
Local currency	431,414	21,904	45,144	274,631	417,126	1,190,219
Foreign currencies	468,053	315,248	305,452	228,682	29,089	1,346,524
Offshore borrowing in foreign currencies	3,718	20,451	-	8,367	-	32,536
Bonds purchased under repurchased agreements	₩ 676,166	₩ 306,843	₩ 376,337	₩ -	₩ -	₩ 1,359,346
Bills sold in foreign currencies	55,134	178,234	934	-	-	234,302
Debentures:						
Local currency	100,000	-	95,822	399,971	271,832	867,625

Won in millions

December 31, 2005	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ 317,511	₩ 500	₩ 48,991	₩ -	₩ 375,763	₩ 742,765
Foreign currencies	-	-	-	-	36,577	36,577
Loans:						
Local currency	2,634,178	1,808,173	3,118,904	1,788,750	1,852,841	11,202,846
Foreign currencies	19,498	40,682	91,533	106,608	80,659	338,980
Offshore loans in foreign currencies	412	290	1,274	1,318	658	3,952
Domestic import usance bill	168,032	77,704	3,729	493	74	250,032
Bills bought in local currency	3,874	-	-	-	-	3,874
Advance for customers	489	-	-	-	817	1,306
Bills bought in foreign currencies	124,631	40,017	24,973	-	-	189,621
Credit card receivables	274,524	15,939	9,654	6,173	3,534	309,824
Factoring receivables	2	-	-	-	168	170
Bonds sold under repurchased agreements	40,000	-	-	-	-	40,000
Privately placed bonds	10,400	-	7,895	5,600	-	23,895
Deposits:						
Local currency	3,615,948	1,787,512	2,261,878	328,457	4,929,281	12,923,076
Negotiable certificate of deposits	293,190	286,972	16,563	150	-	596,875
Foreign currencies	22,136	5,226	5,831	875	108,442	142,510
Borrowings:						
Local currency	431,314	21,964	47,362	243,202	385,773	1,129,615
Foreign currencies	394,511	154,158	290,479	226,394	26,166	1,091,708
Offshore borrowing in foreign currencies	-	-	-	22,286	-	22,286
Bonds purchased under repurchased agreements	531,317	171,417	197,262	-	-	899,996
Bills sold in foreign currencies	12,234	5,454	227	-	-	17,915
Debentures:						
Local currency	-	39,339	-	200,000	169,345	408,684

NOTES TO FINANCIAL STATEMENTS

27. FINANCIAL INFORMATION ON INTERIM PERIOD (UNAUDITED)

The Bank's operating revenue, operating income and net income for the three months ended December 31, 2006 and 2005 were as follows:

Won in millions except for the amount per share

	2006		2005	
Operating revenue	₩	386,478	₩	342,492
Operating expenses		327,061		322,932
Operating income		59,417		19,560
Non-operating income		6,985		13,504
Non-operating expenses		33,653		6,942
Income before income tax		32,749		26,122
Income tax expense		9,205		8,917
Net income	₩	23,544	₩	17,205
Net income per share	₩	161	₩	117

28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

US Dollars in thousands / Equivalent to Korean won in millions

	2006				2005			
Assets:								
Foreign currencies	US\$	24,953	₩	23,196	US\$	16,307	₩	16,519
Due from banks in foreign currencies		20,808		19,343		36,108		36,577
Securities in foreign currencies		119,811		111,376		79,982		81,022
Loans in foreign currencies		564,931		525,160		338,531		342,932
Domestic import usance bill		281,468		261,653		246,823		250,032
Call loans		29,300		27,237		10,000		10,130
Bills bought in foreign currencies		165,308		153,670		187,188		189,621
Others		93,014		86,466		34,809		35,262
	US\$	1,299,593	₩	1,208,101	US\$	949,748	₩	962,095
Liabilities:								
Deposits in foreign currencies	US\$	172,490	₩	160,347	US\$	140,681	₩	142,510
Borrowings in foreign currencies		1,483,498		1,379,060		1,099,698		1,113,994
Others		128,357		119,321		49,255		49,895
	US\$	1,784,345	₩	1,658,728	US\$	1,289,634	₩	1,306,399

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

NOTES TO FINANCIAL STATEMENTS

29. RELATED PARTY TRANSACTIONS:

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

	Won in millions			
	2006		2005	
	Revenue	Expenses	Revenue	Expenses
PB Futures Co., Ltd.	₩ 66	₩ 123	₩ 8	₩ 187
Busan Credit Information Co., Ltd.	-	2,408	59	2,494
Mybi Co., Ltd.	401	182	219	209
	₩ 467	₩ 2,713	₩ 286	₩ 2,890

The Bank provided allowance for possible loan losses amounting to nil and ₩4 million as of December 31, 2006 and 2005, respectively. In addition, the Bank recorded reversal of allowance for possible loan losses amounting to ₩4 million for the years ended December 31, 2006 and 2005, respectively.

(2) Significant balances with related parties as of December 31, 2006 and 2005 were as follows:

	Won in millions			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
PB Futures Co., Ltd.	₩ 3,130	₩ 1,035	₩ 204	₩ 80
Busan Credit Information Co., Ltd.	-	2,807	-	2,613
Mybi Co., Ltd.	-	3,047	803	4,069
	₩ 3,130	₩ 6,889	₩ 1,007	₩ 6,762

(3) Although the Bank has not provided a payment guarantee for related party as of December 31, 2006, the Bank had provided a payment guarantee amounting to ₩909 million for PB Futures Co., Ltd. as of December 31, 2005.

(4) The various employee benefits for major directors (registered) for the years ended December 31, 2006 and 2005 were as follows:

Type	Won in millions	
	2006	2005
Short-term employee benefits	₩ 1,147	₩ 980
Stock option ^(*)	(240)	1,223
	₩ 907	₩ 2,203

(*) Accumulated stock option expense amounted to ₩49 million and ₩1,643 million as of December 31, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS

30. TRUST ACCOUNTS

(1) Balance sheet of trust accounts for which the Bank provided the guarantees for a fixed rate of return and the repayment of principal as of December 31, 2006 and 2005 were as follows:

Won in millions

December 31, 2006	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts ^(*)	Performance- based trust accounts	Total
Assets:					
Due from financial institutions	₩ -	₩ -	₩ -	₩ 2,883	₩ 2,883
Securities	288	241,680	15,119	501,908	758,995
Loans	3,036	31,641	343	1,909	36,929
Privately placed bonds	370	-	-	-	370
Call loans	-	-	-	60,000	60,000
Office equipment & real-estate	-	-	-	234,809	234,809
Other assets	15	2,544	119	7,501	10,179
Due from bank account	30	34,638	3,432	45,455	83,555
Present value discount	(515)	-	-	-	(515)
Allowance for possible losses	(1,093)	(683)	(106)	(415)	(2,297)
	₩ 2,131	₩ 309,820	₩ 18,907	₩ 854,050	₩ 1,184,908
Liabilities:					
Money trust	₩ 31	₩ 300,671	₩ 17,259	₩ 579,726	₩ 897,687
Asset trust	-	-	-	234,809	234,809
Other liabilities	2,100	9,149	1,648	39,515	52,412
	₩ 2,131	₩ 309,820	₩ 18,907	₩ 854,050	₩ 1,184,908

(*) Mixed trust accounts consisted of trusts that guarantee the repayment of principal and trusts that do not guarantee the repayment of principal.

NOTES TO FINANCIAL STATEMENTS

Won in millions

December 31, 2005	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts ^(*)	Performance- based trust accounts	Total
Assets:					
Securities	₩ 736	₩ 228,401	₩ 12,152	₩ 552,901	₩ 794,190
Loans	3,570	23,102	434	2,922	30,028
Other assets	17	4,261	104	6,523	10,905
Due from bank account	45	25,750	10,460	52,715	88,970
Present value discount	(728)	-	-	-	(728)
Allowance for possible losses	(1,477)	(1,023)	(268)	(696)	(3,464)
	₩ 2,163	₩ 280,491	₩ 22,882	₩ 614,365	₩ 919,901
Liabilities:					
Money trust	₩ 46	₩ 273,997	₩ 21,112	₩ 567,393	₩ 862,548
Other liabilities	2,117	6,494	1,770	46,972	57,353
	₩ 2,163	₩ 280,491	₩ 22,882	₩ 614,365	₩ 919,901

(*) Mixed trust accounts consisted of trusts that guarantee the repayment of principal and trusts that do not guarantee the repayment of principal.

NOTES TO FINANCIAL STATEMENTS

(2) Trust accounts for which the Bank provided the guarantees for a fixed rate of return and the repayment of principal as of December 31, 2006 and 2005 were as follows:

Won in millions

December 31, 2006			
Name of fund	Book value	Fair value	Charge to bank account
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 3,276	₩ 3,276	₩ -
Elderly living pension trust	5,752	5,778	-
Installment trust	2,078	2,076	2
Personnel pension trust	184,502	184,206	296
Retirement trust	93,276	93,276	-
New personnel pension trust	1,969	1,969	-
Pension trust	24,321	24,321	-
	315,174	314,902	298
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	32	32	-
Development trust	2,099	2,099	-
	2,131	2,131	-
	₩ 317,305	₩ 317,033	₩ 298

Won in millions

December 31, 2005			
Name of fund	Book value	Fair value	Charge to bank account
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 3,839	₩ 3,830	₩ 9
Elderly living pension trust	6,013	6,006	7
Installment trust	2,858	2,850	8
Personnel pension trust	174,101	173,267	834
Retirement trust	82,643	82,643	-
New personnel pension trust	1,801	1,801	-
Pension trust	15,933	15,934	-
	287,188	286,331	858
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	47	47	-
Investment trust	2,116	2,116	-
	2,163	2,163	-
	₩ 289,351	₩ 288,494	₩ 858

NOTES TO FINANCIAL STATEMENTS

31. COMPUTATION OF ADDED VALUE

The accounts for computation of value added for the years ended December 31, 2006 and 2005 were summarized as follows:

	Won in millions	
	2006	2005
Salaries and wages	₩ 115,481	₩ 115,945
Severance and retirement benefits	15,522	17,808
Employee benefits (see Note 32)	84,597	81,397
Rent	4,642	4,349
Depreciation and amortization	34,173	34,804
Taxes and dues	13,085	11,845
	₩ 267,500	₩ 266,148

32. EMPLOYEE BENEFITS

Employee benefit expenses for the years ended December 31, 2006 and 2005 were as follows (Unit: Won in millions):

	Won in millions	
	2006	2005
Meal expense	₩ 5,657	₩ 5,308
Health and medical	285	288
Legal benefits	428	95
Congratulations and condolences	487	432
Health training	46,099	45,521
Others	31,641	29,753
	₩ 84,597	₩ 81,397

NOTES TO FINANCIAL STATEMENTS

33. EXPERT TRAINING EXPENSES

The Bank incurred ₪774 million and ₪1,254 million for expert training from local and foreign training institutes for the years ended December 31, 2006 and 2005, respectively.

34. CASH FLOWS

(1) The cash and due from banks in the statements of cash flows for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
	Won in millions			
Cash on hand	₪	362,765	₪	362,146
Foreign currencies		23,196		16,519
Due from banks in local currency		624,012		742,765
Due from banks in foreign currencies		19,343		36,577
		1,029,316		1,158,007
Restricted due from banks (see Note 3)		356,383		396,280
	₪	672,933	₪	761,727

(2) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
	Won in millions			
Decrease of loans due to write-offs of principal	₪	39,091	₪	86,837
Reclassification of construction in progress to tangible assets		12,628		10,455

INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM ("IACS")

To the Representative Director of
Pusan Bank

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Pusan 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, the 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.

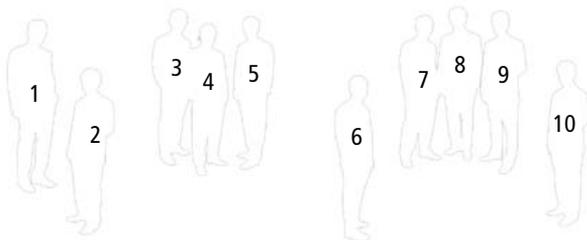


January 30, 2007

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Board of Directors



- | | | |
|---|---|--|
| 1. Lee, Jang-ho
CEO & President | 2. Jung, Je-poong
Standing Auditor | 3. Jung, Sung-tae
Deputy President |
| 4. An, Sung-cheul
Deputy President | 5. Jung, Won-jong
Executive Vice President | 6. Park, Gwan-ho
Executive Vice President |
| 7. Moon, Sup-je
Executive Vice President | 8. Lim, Young-rok
Executive Vice President | 9. Sung, Se-whan
Executive Vice President |
| 10. Park, Tae-min
Executive Vice President | | |



Non-standing Directors

Kang, Moon-jong
Lawyer / Kang, Moon-jong Law-Office

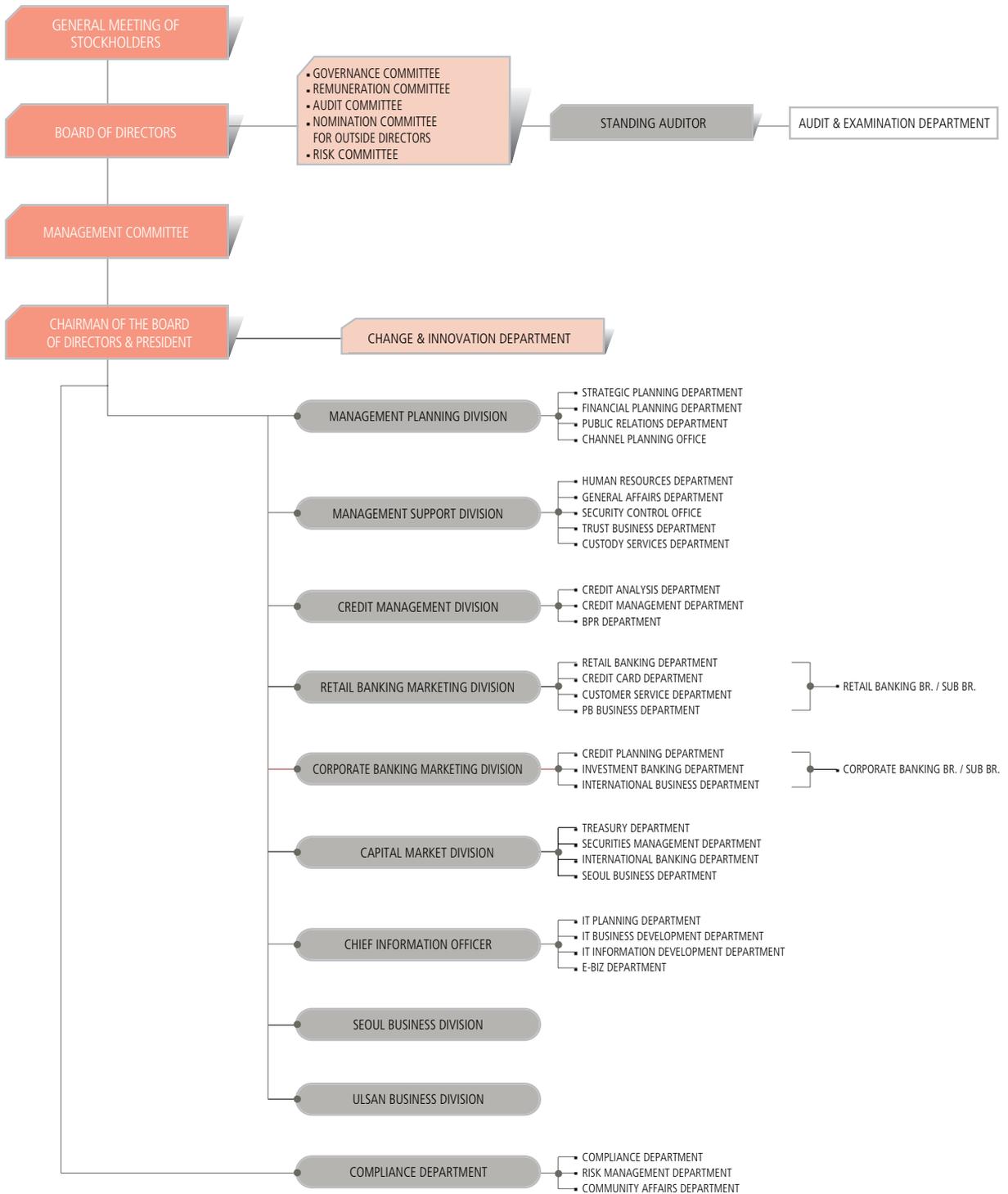
Eun, Soong-pyo
Professor / Silla University

Chai, Jeong-byeung
Executive Director / Lotte Hotel Co.,Ltd

Shin, Jung-taek
Chairman / Seun Steel Co., Ltd.

Lee, Jae-ung
Professor / SungKyunkwan University

Organization Chart



Chronology of Pusan Bank

Oct. 10, 1967	Founded with paid capital of KRW 300 million	Aug. 22, 2003	Received loan of JYP 6 billion (equivalent to USD 50 million) from the Seoul branch of Sumitomo Mitsui Banking Corporation, reflecting global recognition of the bank's outstanding management performance
Oct. 25, 1967	Commenced business	Dec. 5, 2003	Concluded joint business agreement with LG Investment & Securities
Feb. 1, 1968	Began foreign exchange activities	Dec. 9, 2003	Entered into agreement with Korea Land Corporation to provide real estate development loans
Jun. 15, 1972	Listed on the Korea Stock Exchange (now Korea Exchange)	Dec. 15, 2003	Received an upgraded financial strength rating. Given a "stable outlook from Moody Profitability and capital adequacy were deemed outstanding," with net interest margin and asset soundness receiving the highest scores.
May. 2, 1983	Began trust business	Dec. 18, 2003	Provided KRW 9.8 billion in project financing for Geoga Bridge
Jun. 1, 1985	Began credit card business	Jan. 13, 2004	Joined hands with KTF to offer IC chip-based mobile banking services
Jan. 3, 1990	Launched a new corporate identity program (CIP)	Mar. 16, 2004	Implemented credit recovery plan to help small-scale borrowers reestablish a good credit rating
Nov. 1, 1992	Began home banking service	Apr. 23, 2004	Pusan Bank President Shim Hoon named "2004 CEO of the Year" KMA (Korea Management Association)
Dec. 1, 1993	Launched EDI service	Jun. 22, 2004	Ranked among the "30 Most Respected Korean Companies" by Dong-A Ilbo and Korea IBM BCS
Dec. 5, 1994	Adopted DDS-styled dealing system	Oct. 15, 2004	Named winner of the "Social Contribution Corporate Award" in Regional Community Development category by Open Management Research
May 2, 1995	Introduced tele-banking service	Dec. 21, 2004	Selected as "Most Respected Company of the Year" by Korea CEO Association
Sep. 18, 1997	Opened integrated online system	Mar. 31, 2005	Received the highest FSS evaluation among financial companies for fewest customer complaints in the second half of 2004
Dec. 9, 1998	Established strategic business tie-up with US firm Microsoft	Jun. 30, 2005	Total deposits exceeded KRW 15 trillion
Mar. 31, 1999	Selected as a funds settlement bank by Korea Futures Exchange	Jul. 14, 2005	Won Silver Prize at the "Top 30 Most Reputable Companies" Awards sponsored by IBM Korea Business Consulting and Dong-A Ilbo
Jul. 28, 1999	Concluded a comprehensive consulting service pact with US firm Pricewaterhouse Coopers	Aug. 22, 2005	Became the first Korean bank to offer Chinese Yuan remittance services
Mar. 6, 2000	Began cyber banking service	Dec. 22, 2005	Received Gold Prize at the "Dasan" Finance Awards
Mar. 24, 2000	Selected to manage Digital Busan Card	Mar. 31, 2006	Signed an understanding for the Yonghoman (bay) reclamation project financing
Nov. 5, 2000	Selected to manage budgetary funds for Busan	Apr. 17, 2006	Signed an agreement for financial support to businesses in Busan
Feb. 21, 2001	Pusan Bank Digital Busan Card wins Advanced Card Award 2001 in the UK	Apr. 21, 2006	Received grand prize at the marketing awards (in the social contribution category) from Korea Economic Daily
May. 29, 2001	Signed consultancy contract with Nemo Partners to build a performance management system	Apr. 28, 2006	Selected as a major bank by Busan Lotte Hotel Casino
Aug. 1, 2001	Launched integrated profit management system	May 22, 2006	Selected as a depository for deposits by Busan District Court
Apr. 11, 2002	Completed world-class integrated risk management system	Aug. 23, 2006	Concluded an agency contract for the sale of conventional market gift vouchers
May 27, 2002	Launched call center system	Sep. 22, 2006	Received Presidential Award at the 12th Reading Culture Awards
Aug. 12, 2002	Introduced Buvix Card	Oct. 30, 2006	Signed an agreement for the favorable treatment of multiple-child families with Busan Metropolitan City Office
Aug. 21, 2002	Total deposits broke the KRW13 trillion mark	Nov. 22, 2006	Signed a business agreement for land purchasing loans with Busan Metropolitan Corporation, a first in the financial industry
Aug. 28, 2002	Concluded comprehensive cooperation agreement with Industry and Commerce Bank of China	Dec. 13, 2006	Received Presidential Commendation at the 11th SME financial support awards in the institution category
Dec. 13, 2002	President Sim Hoon named 'Best CEO of the Year' by the Korea Economic Daily and Towers Perrin		
Jan. 6, 2003	Won Gold Prize at the 12th annual Dasan Awards		
Mar. 31, 2003	Concluded alliance for bancassurance with four life insurers (Samsung, Kyobo, Shinhan, AIG Life) and four non-life insurers (Samsung, LG, Dongbu, Oriental Fire & Marine).		
May. 19, 2003	Launched stock investment services with Hanwha Securities		
May. 29, 2003	Concluded project financing agreement for Busan New Harbor construction (Pusan Bank's participation: KRW 40 billion. Total financing by four institutions: KRW 245 billion)		
Jun. 4, 2003	Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees		
Jun. 10, 2003	Set up operations for handling business incorporation, bad loan collection, etc		
Jun. 17, 2003	Established wholly owned subsidiary, Pusan Credit Information		
Jul. 1, 2003	Selected as "Superior Public Corporation of 2003" by the Korea Stock Exchange		

International Banking Directory



International Banking Department

Address : 100-191, Kumseki Bldg 3th Fl, 16, 1-Ga,
Ulchi-Ro, Jung-Gu, Seoul, Korea
Tel. : (82)-(2)-758-6322, 6300
Fax : (82)-(2)-758-6399, 6398
Telex : K27605 PUSANBK
BIC : PUSBKR2PINT
E-mail : pusbint@pusanbank.co.kr
General Manager : J.H.Sohn



International Business Department

Address : 25-2, 4-Ga, Jungang-Dong, Jung-Gu,
Busan 600-014 Korea P.O Box 131 Busan
Tel. : (82)-(51)-469-0182
Fax : (82)-(51)-464-2739
Telex : K53392 PUSANBK
BIC : PUSBKR2P
E-mail : pusbkr@pusanbank.co.kr
General Manager : Lee, Gil-beom

Correspondents by Currency (Bank Name, Account No., SWIFT Code, City)

■ USD

- Bank of America 655-00-94495 BOFAUS3N New York
- HSBC Bank USA 000-03030-9 MRMDUS33 New York
- Wachovia Bank 2000191022429 PNBPU3N NYC New York
- Standard Chartered Bank 3582-040960-001 SCBLUS33 New York
- Bank of New York 890-0067-683 IRVTUS3N New York
- American Express Bank 00120246 AEIBUS33 New York
- Deutsche Bank Trust Company 04-024-763 BKTRUS33 New York
- Sumitomo Mitsui Banking Corp. 100430 SMBCUS33 New York

■ JPY

- Standard Chartered Bank 02110371110 SCBLJPJT Tokyo
- Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT Tokyo
- American Express Bank 245-313000409 AEIBJPJT Tokyo

■ GBP

- Korea Exchange Bank 1301000061 KOEXGB2L London
- HSBC Bank PLC 35435935 MIDLGB22 London

■ EUR

- American Express Bank 018005506 AEIBDEFX Frankfurt
- Standard Chartered Bank 01708607596 SCBLGB2L London
- Dresdner Bank AG 499/08016859/00/888 DRESDEFF Frankfurt

■ CHF

- UBS AG 02300000087106050000P UBSWCHZH80A Zurich

■ DKK

- Danske Bank 3007536712 DABADKKK Copenhagen

■ SEK

- Nordea Bank 39527907721SEK NDEASESS Stockholm

■ HKD

- Standard Chartered Bank 411-094-0105-9 SCBLHKHH Hong-Kong

■ SGD

- Korea Exchange Bank 1-01778 KOEXSGSG Singapore

■ IDR

- Standard Chartered Bank 0100055486 SCBLIDJX Jakarta

■ CAD

- The Bank of Nova Scotia 0282111 NOSCCATT Toronto
- Toronto Dominion Bank 0360-01-2304648 TDOMCATTOR Toronto

■ NZD

- ANZ Bank 835504.00001 ANZBNZ22058 Wellington

■ AUD

- National Australia Bank 1803003298500 NATAAU33033 Melbourne

■ THB

- Standard Chartered Bank 00100781780 SCBLTHBXXX Bangkok

■ NOK

- Korea Exchange Bank 963-THR-108-14-1 KOEXKRSE Seoul

Domestic Subsidiaries

PB Futures Co., Ltd.

Address : 10th Fl, Pusan Chamber of Commerce & Industry Bldg,
: 853-1 Bumcheon 1-Dong, Busanjin-Gu, Busan, Korea
Tel. : (82)-(51)-643-4900
Paid-in Capital : € 15,000 million
Holding Share : 100%

Busan Credit & Information Co., Ltd.

Address : 378-11, Gaya 1-Dong, Busanjin-Gu, Busan, Korea
Tel. : (82)-(51)-890-5000
Paid-in Capital : € 3,000 million
Holding Share : 100%

Korea Non-Bank Lease Financing Co., Ltd.

Address : 6th Fl, Yuwon Bldg, 75-95, Seosomun-Dong, Jung-Gu, Seoul, Korea
Tel. : (82)-(2)-398-4100
Paid-in Capital : € 20,000 million
Holding Share : 17.38%

Corporate Data

Established

Oct. 25, 1967

Total shareholders' equity

KRW 1,278.8 billion

Paid-in capital

KRW 733.4 billion

Common stock issued and outstanding

146,683,650

Domestic network

220

Employees

1,905

Major shareholders

Lotte Confectionery Co., Ltd.	14.11%
Capital Research & Global Investors	11.90%
Park Land Co., Ltd.	4.11%
PL-ABDN GL	2.71%
MSIL-SR Global FD	2.41%
Korea Iron & Steel Co., Ltd.	1.90%
Templeton Global Smaller	1.62%
Saudi Arabian Monetary	1.57%

www.pusanbank.co.kr



PUSAN BANK

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